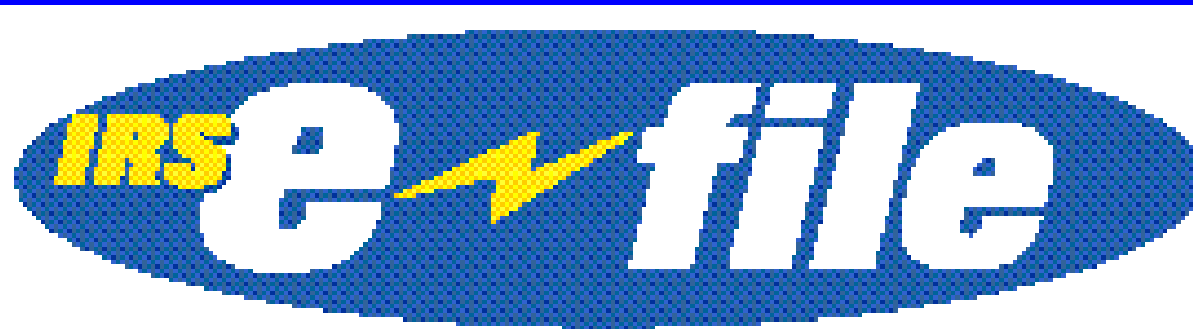


Electronic Tax Administration (ETA) Marketing Research



Click, Zip, Fast Round Trip!

“Revolutionizing How Taxpayers Transact and Communicate With the IRS”

Some Definitions

e-file - The IRS brand name for all electronic return filing methods

Practitioner ELF - The filing of Federal tax returns through an electronic return originator (ERO)

TeleFile - Filing of simple Federal tax returns using the telephone

On-Line - Filing of Federal tax returns from a personal computer using authorized software

V-Code - A code used by IRS for paper returns prepared on a computer using authorized software

Primary Data Source

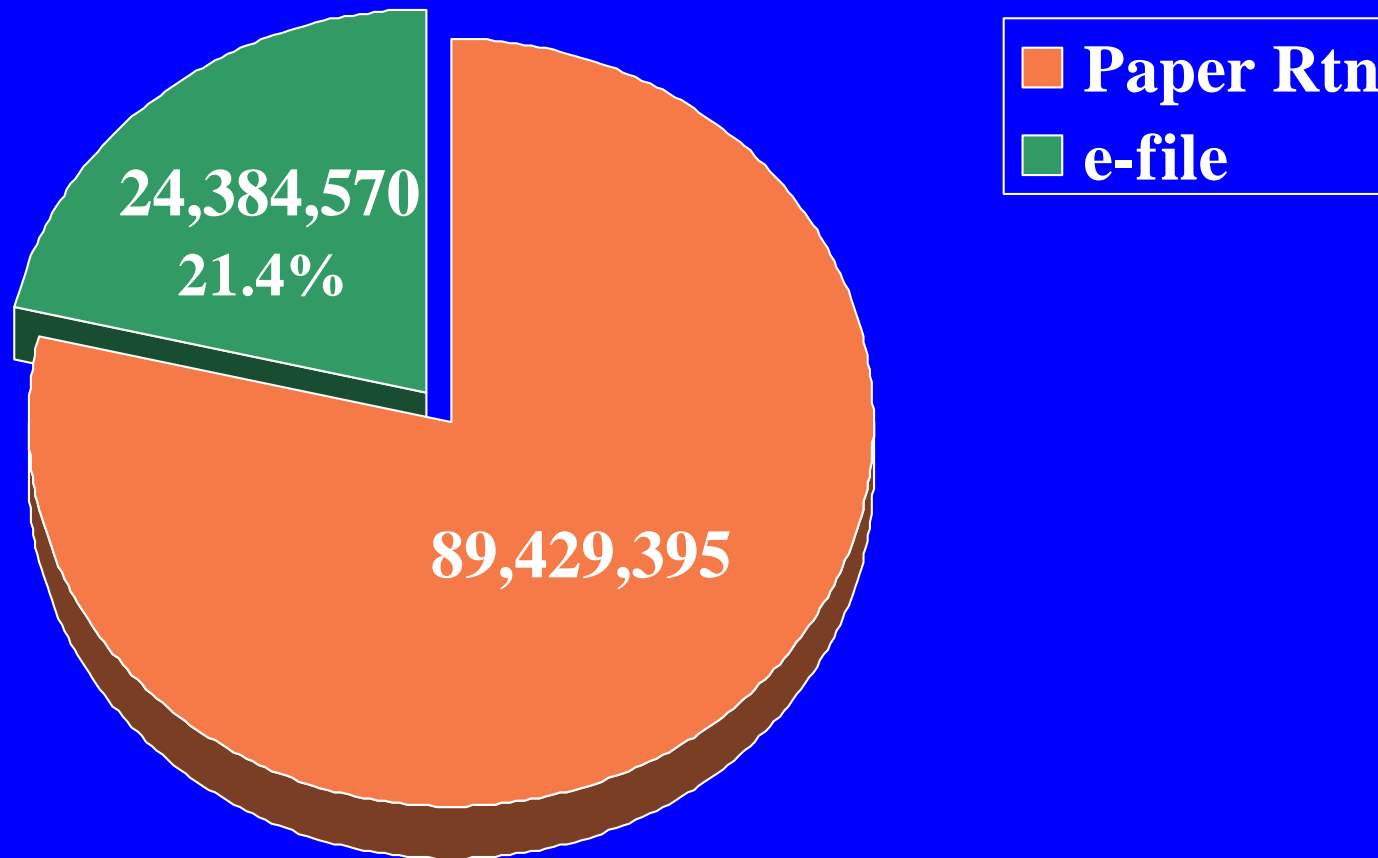
- ◆ All individual income tax returns filed for tax year 1997
- ◆ Processed through August 1, 1998
- ◆ Includes almost 114 million returns



ETA Marketing Research Process

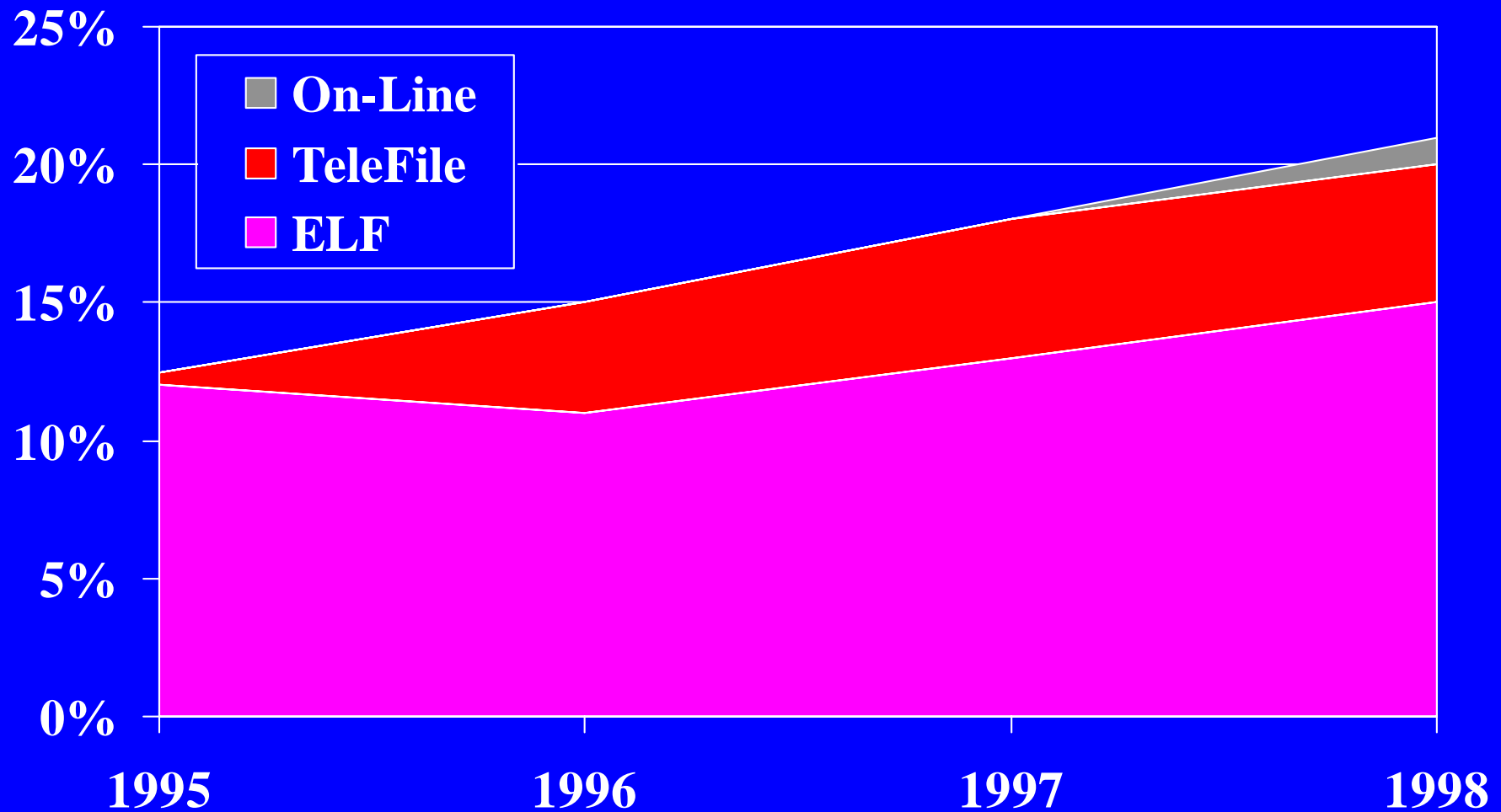
- ◆ Specific 'research questions' were identified by the customers.
- ◆ Required enhancements were made to ETA Marketing Database.
- ◆ Southwest DORA conducted research required to answer the questions.
- ◆ A research report is being provided to the Assistant Commissioner (ETA)

By August, Over 24 Million People had Filed Their 1997 Return Electronically



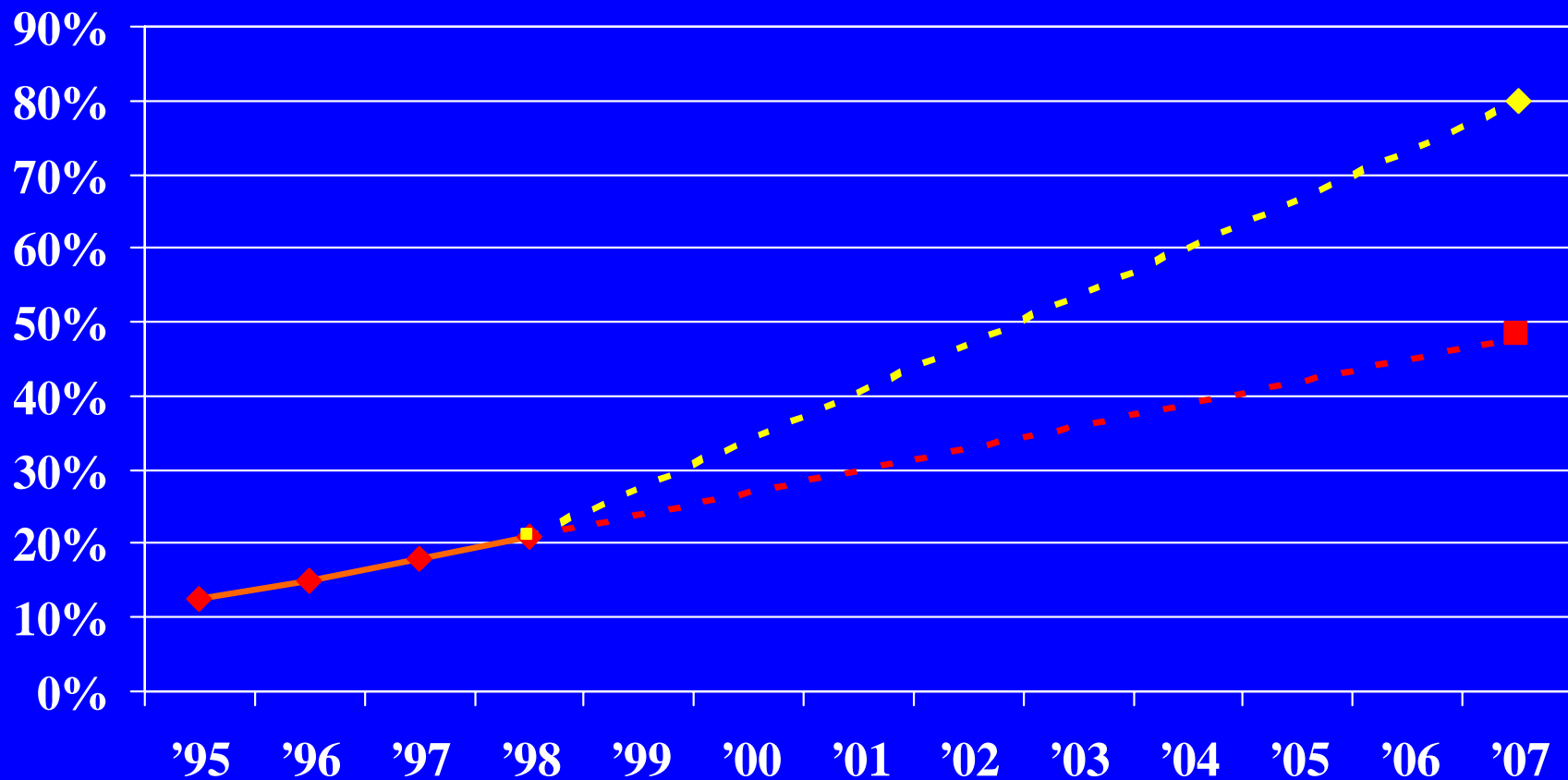
The Trend is Away From Paper Filing to *e-file*

e-file Penetration

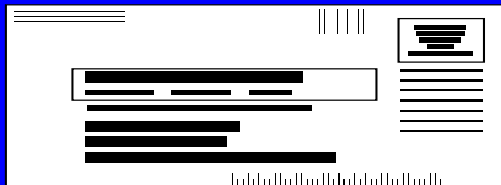
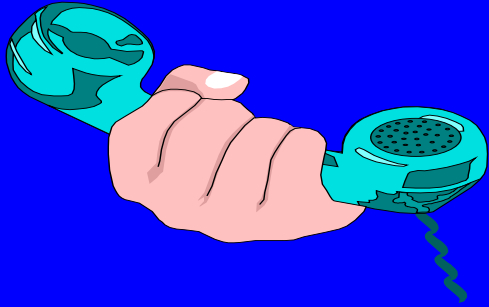


IRS Restructuring and Reform Act

80% of Returns Electronically Filed by 2007

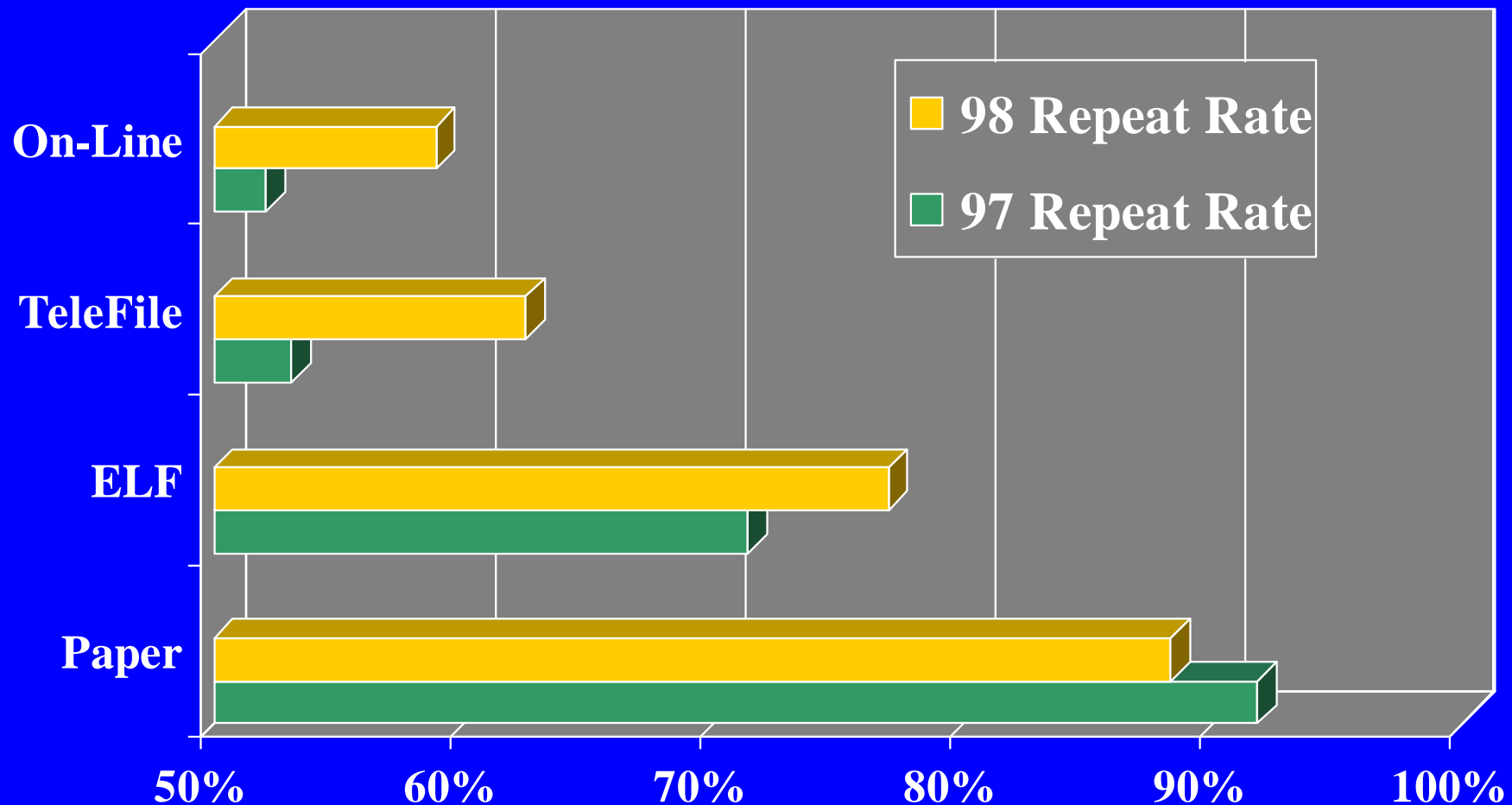


e-file Research Questions



- ◆ What is the product loyalty for *e-file* users?
- ◆ What is the inter-modal migration among *e-file* users?
- ◆ What is the general profile of *e-file* users?
- ◆ What is the profile of taxpayers using return preparation software but still filing paper returns?

All *e-file* Repeat Rates Improved in 1998

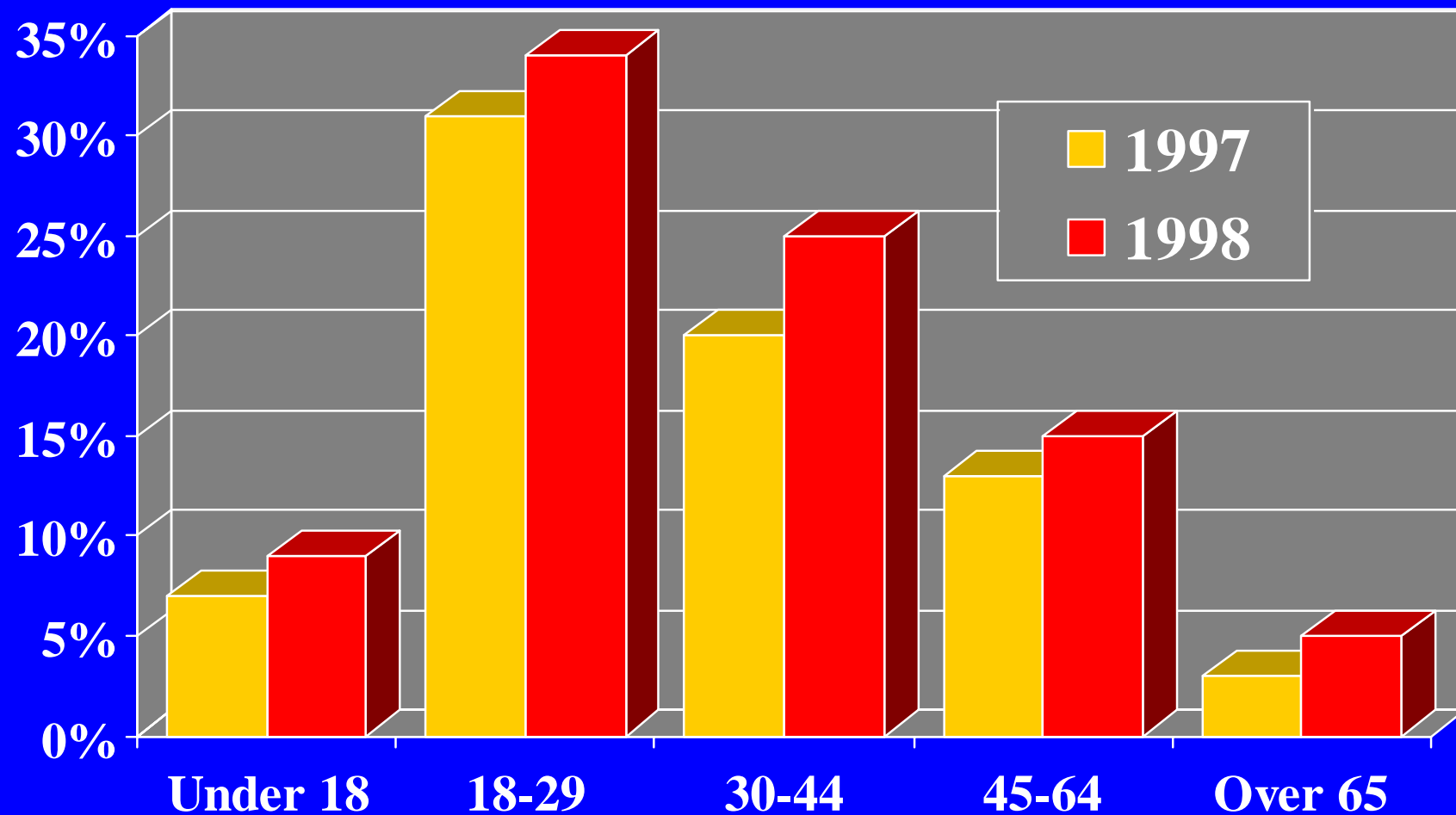


Over Two Thirds of *e-file* Users Remained Loyal For Two Years*

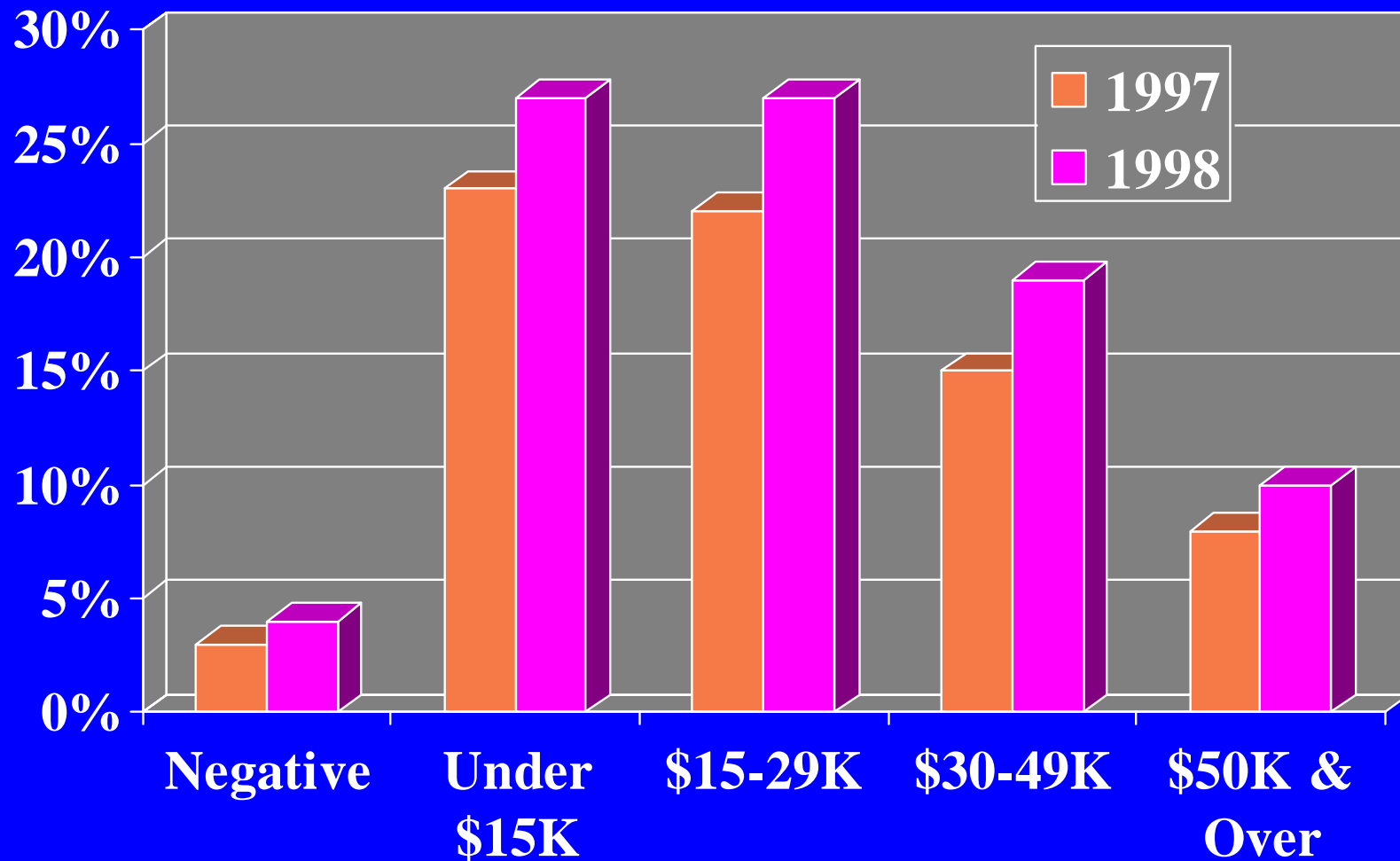
	Repeat Rates	Inter-modal Migration	<i>e-file</i> Usage
Paper	84.6%	N/A	15.4%
ELF	68.8%	8.6%	77.4%
TeleFile	47.4%	19.4%	66.8%
On-Line	49.0%	15.8%	64.8%

*1996 to 1998

e-file Penetration Has Increased for all Age Groups



And Increased For All Income Levels



On-line Filing May Be Attracting Taxpayers With Lower Income Levels

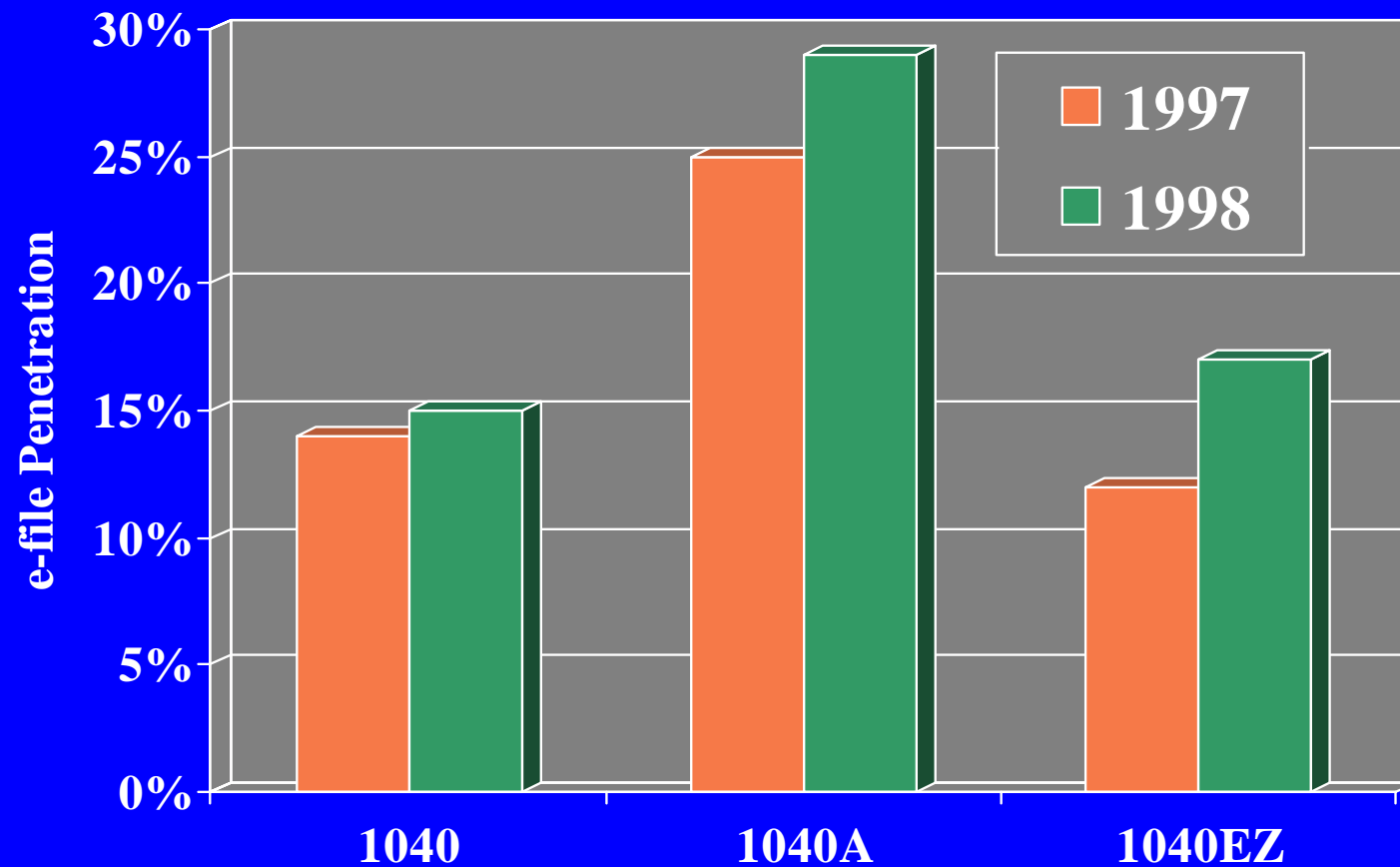
Average (Mean) Adjusted Gross Income

	1997	1998	% Change
Paper	\$35,679	\$42,183	18.2%
ELF	\$24,199	\$25,914	7.1%
TeleFile	\$15,351	\$16,217	5.6%
On-Line	\$52,323	\$51,682	(1.2%)

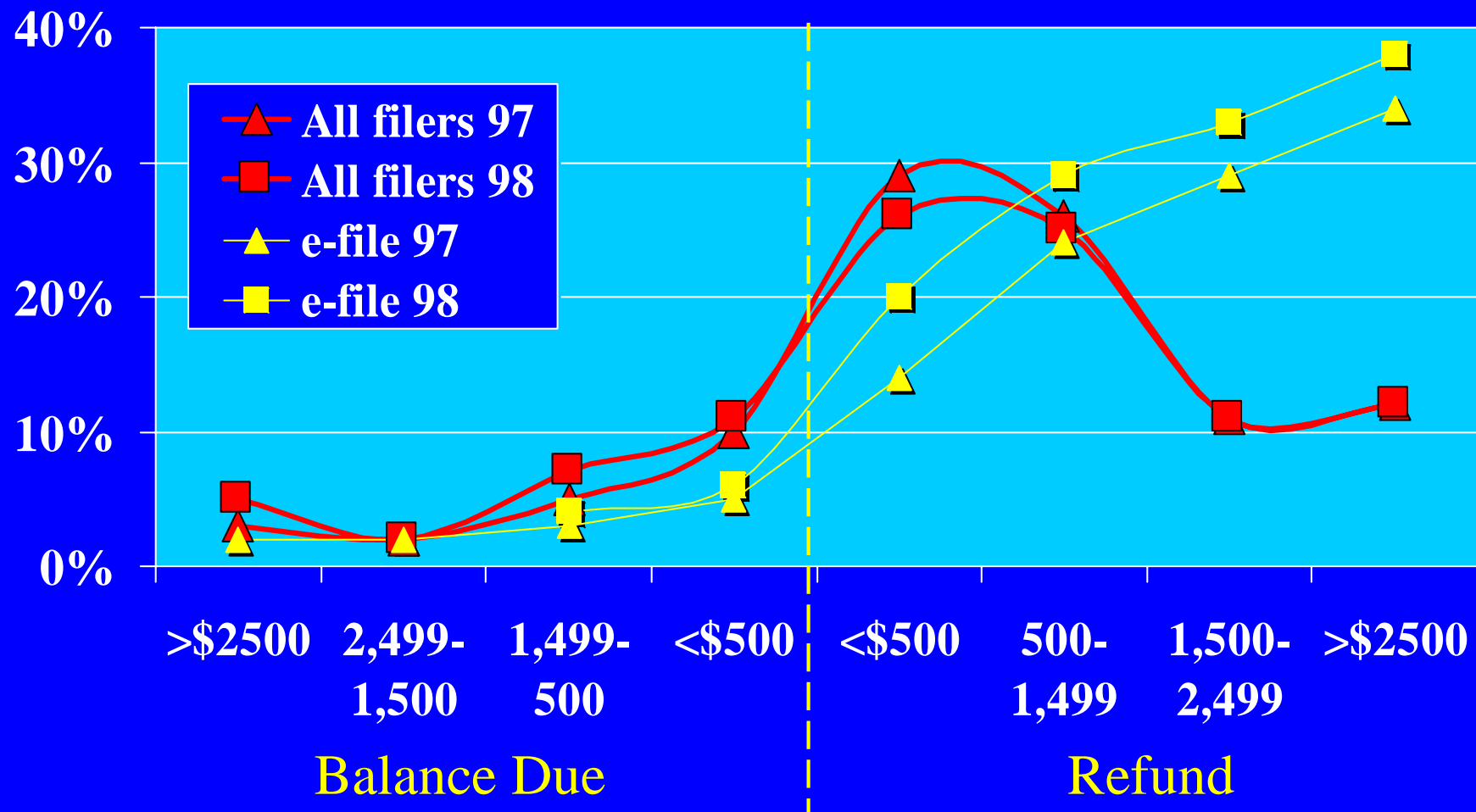
The Proportion of Form 1040 Users Increased Three Percentage Points

<u>FORMS</u>	<u>1997</u>	<u>1998</u>
1040	53%	56%
1040A	20%	19%
1040EZ	14%	12%
1040PC	7%	6%
TeleFile	5%	5%

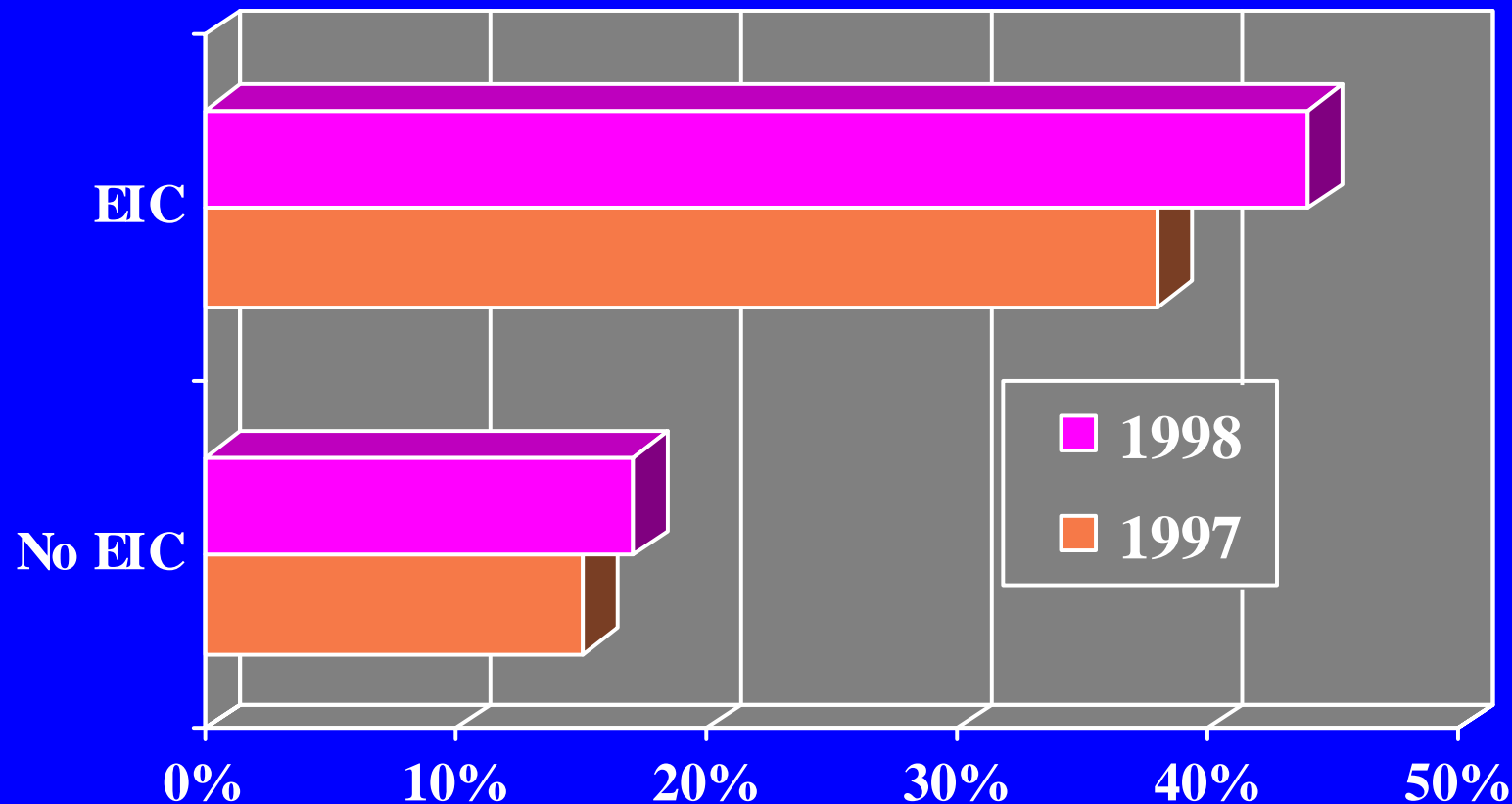
However, Form 1040 had the Lowest *e-file* Growth and Penetration Rates



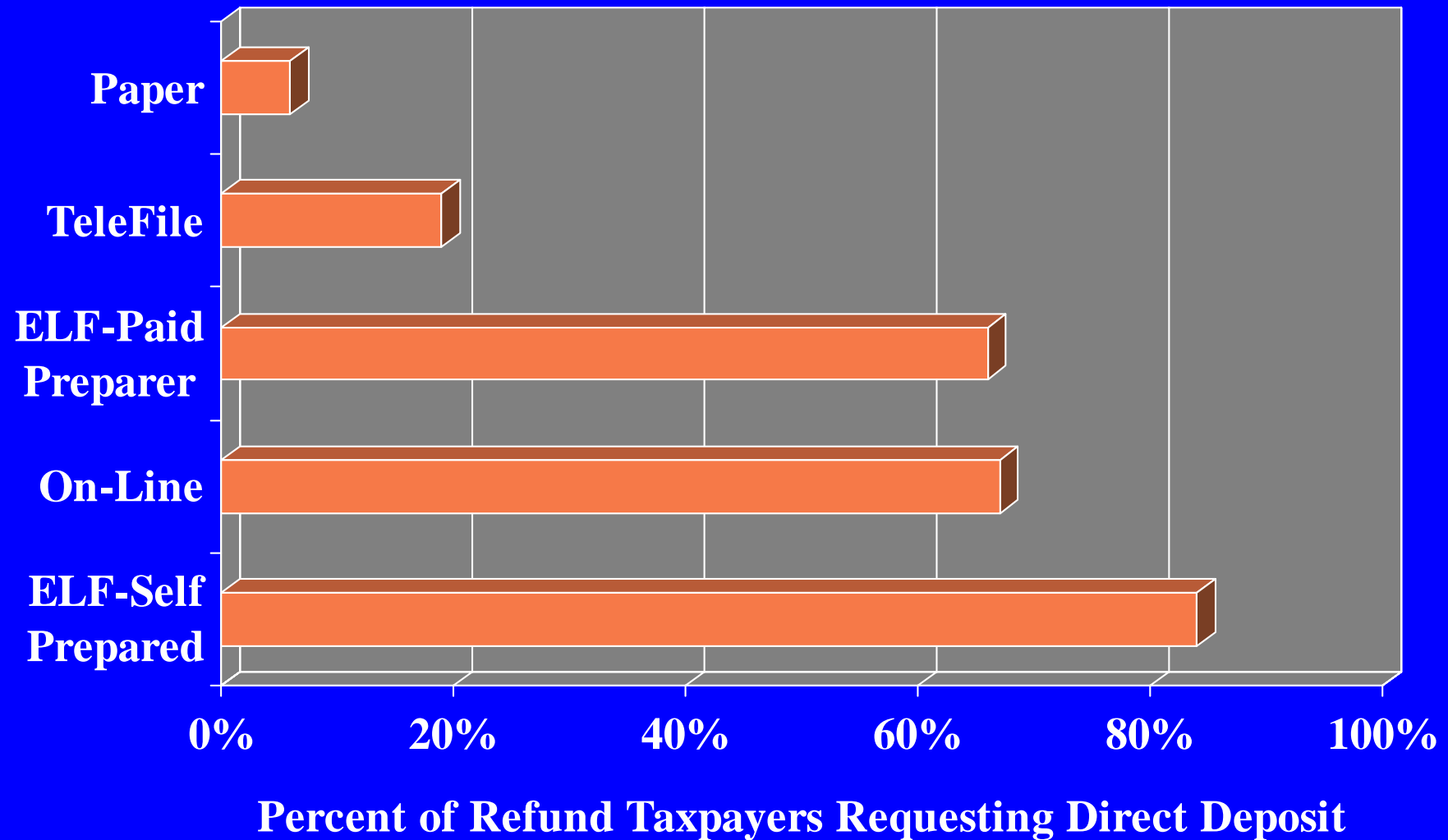
e-file Usage Increases as Balance Due Decreases or Refund Increases



Returns Claiming Earned Income Credit Have the Highest *e-file* Penetration



Self Prepared Returns Filed via an ERO had Highest Utilization of Direct Deposit



Market Segment Research Questions

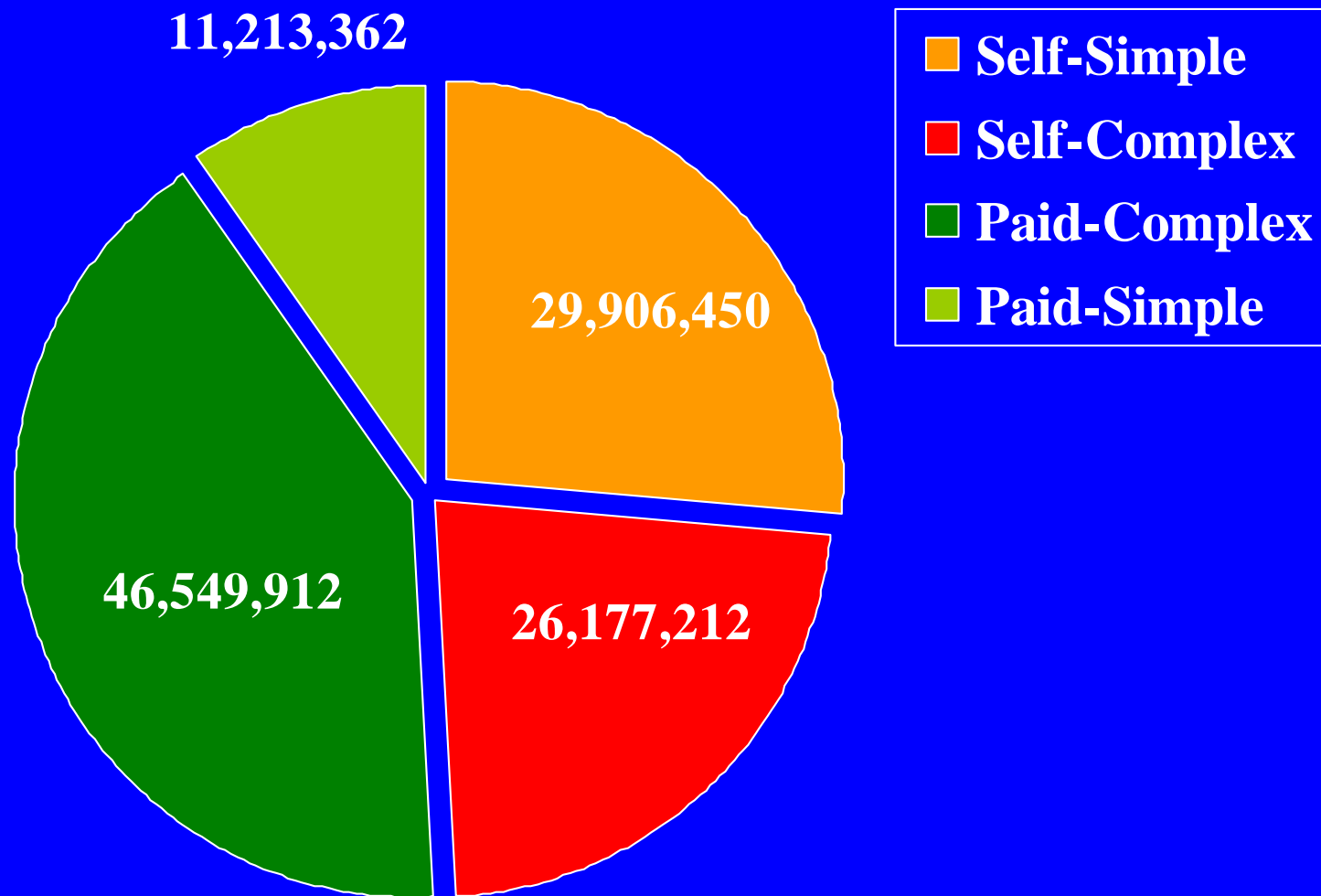


- ◆ What is the size of the potential market segment for each of the *e-file* methods?
- ◆ What was the *e-file* penetration for each of the market segments?

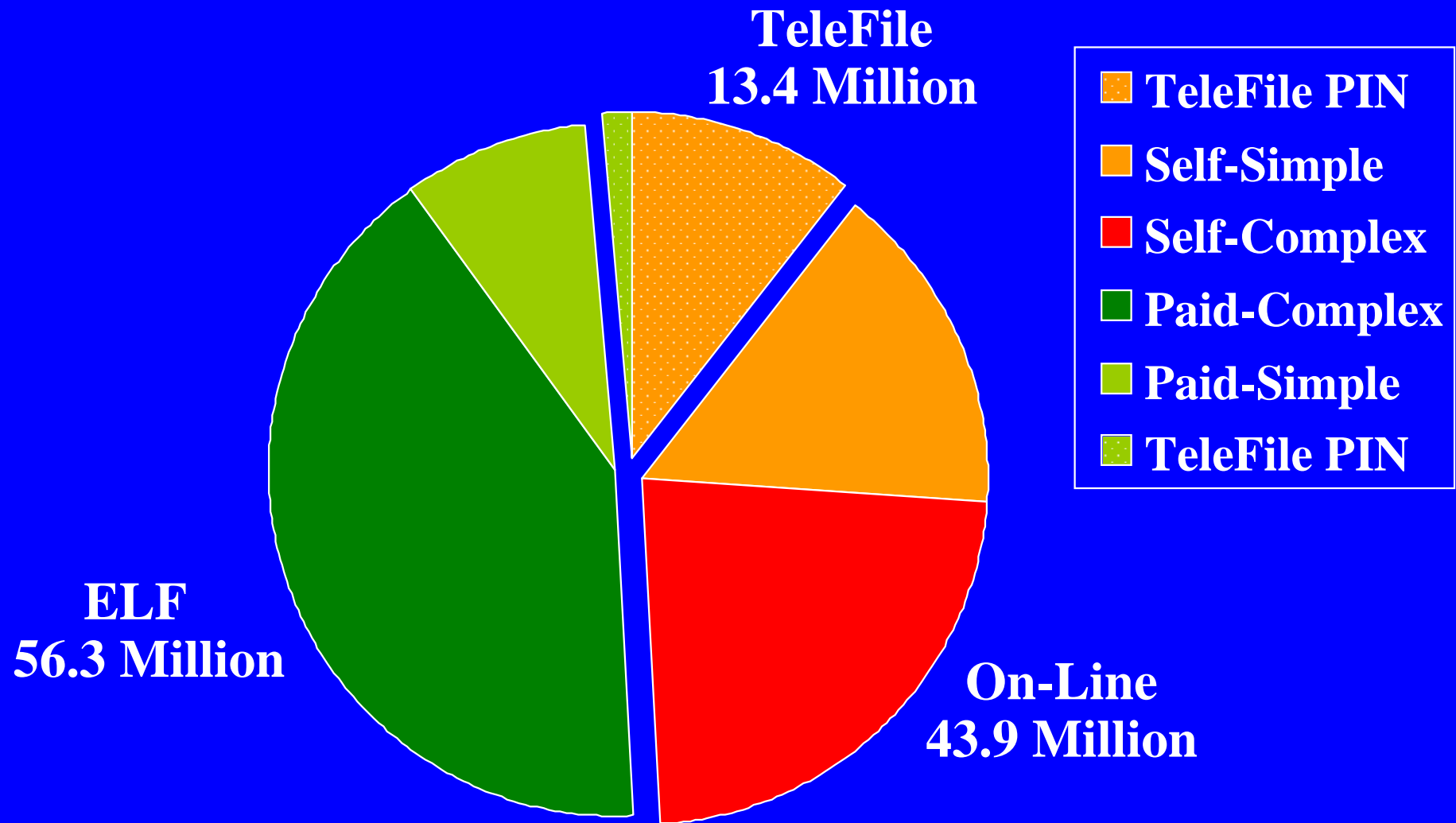
Market Segment Definitions

- ◆ Self Prepared Return - There was no paid preparer identification number on the return
- ◆ Paid Preparer Return - There was a paid preparer identification number on the return
- ◆ Simple Return -
 - Form 1040-EZ or Form 1040A
 - Form 1040 with no schedules
- ◆ Complex Return - All returns that do not meet the definition of a simple return

There are Four Major Market Segments for *e-file*



With Three Available *e-file* Methods

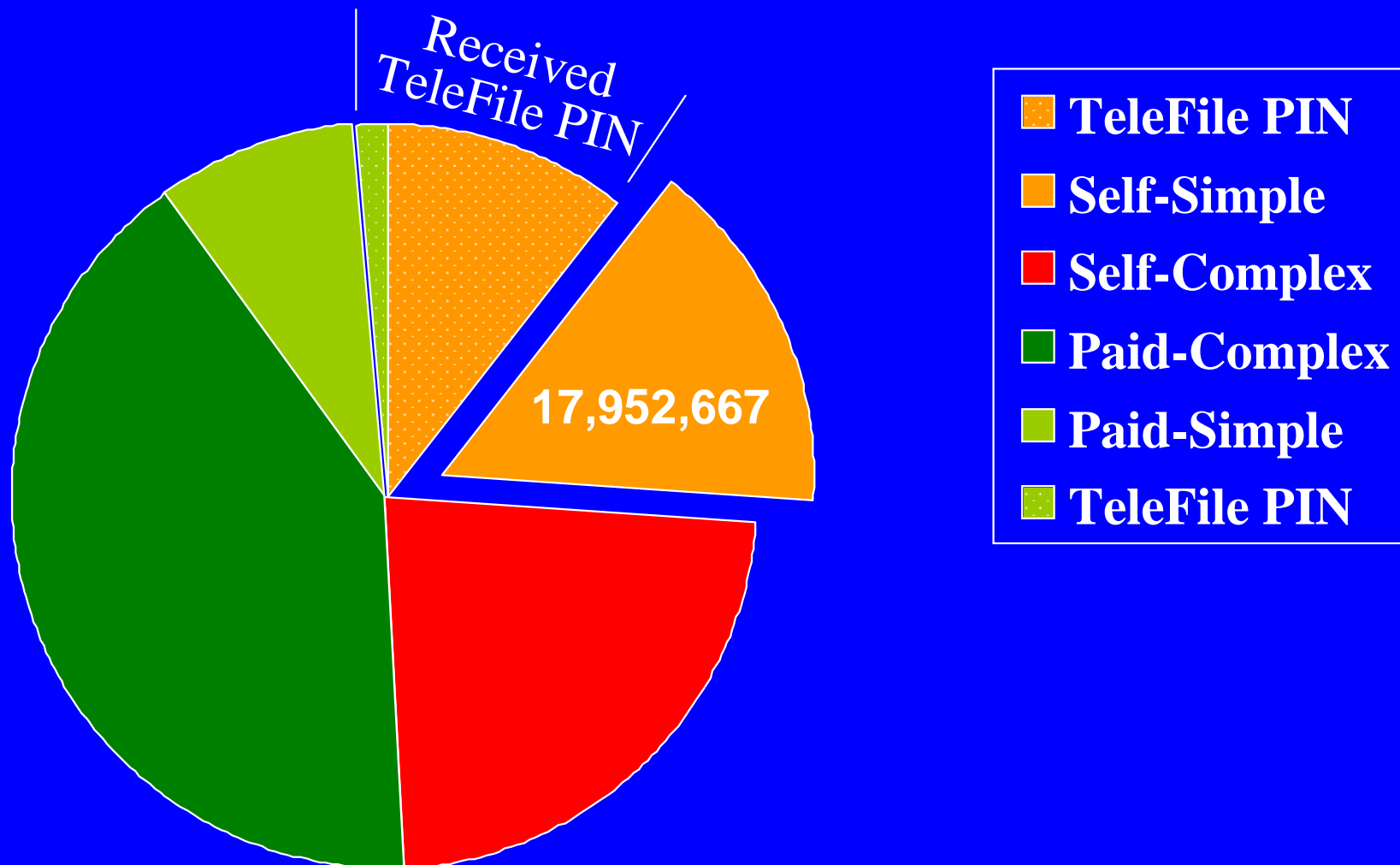


If the Following Assumptions Are True



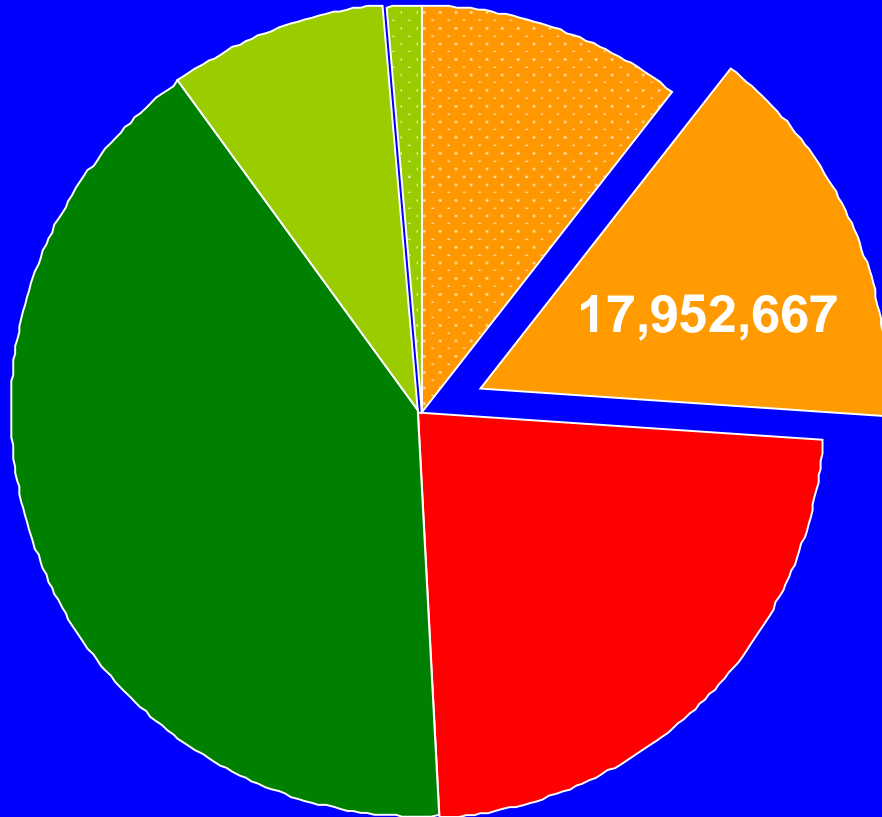
- ◆ Most taxpayers who prepare their own return:
 - do not want to pay a return preparer and/or
 - are comfortable in preparing their own return
- ◆ Taxpayers that prepare their own returns generally will not pay much to have the return filed electronically

There Is a Significant Hurdle in Using *e-file* for 18 Million Simple Returns

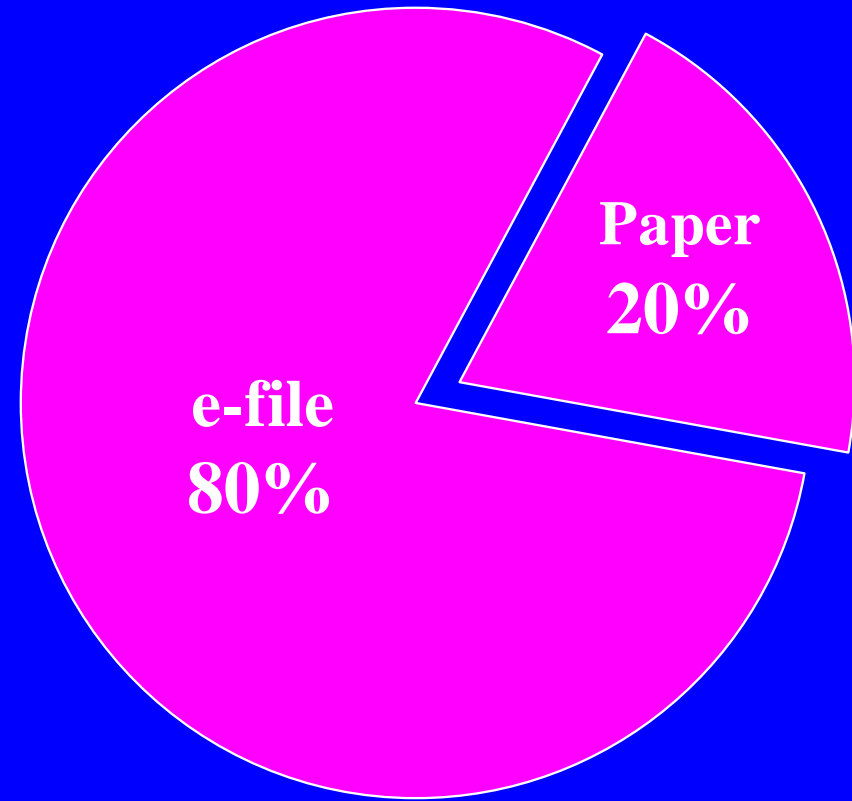


80% of All Tax Returns Should Be Electronically Filed By 2007

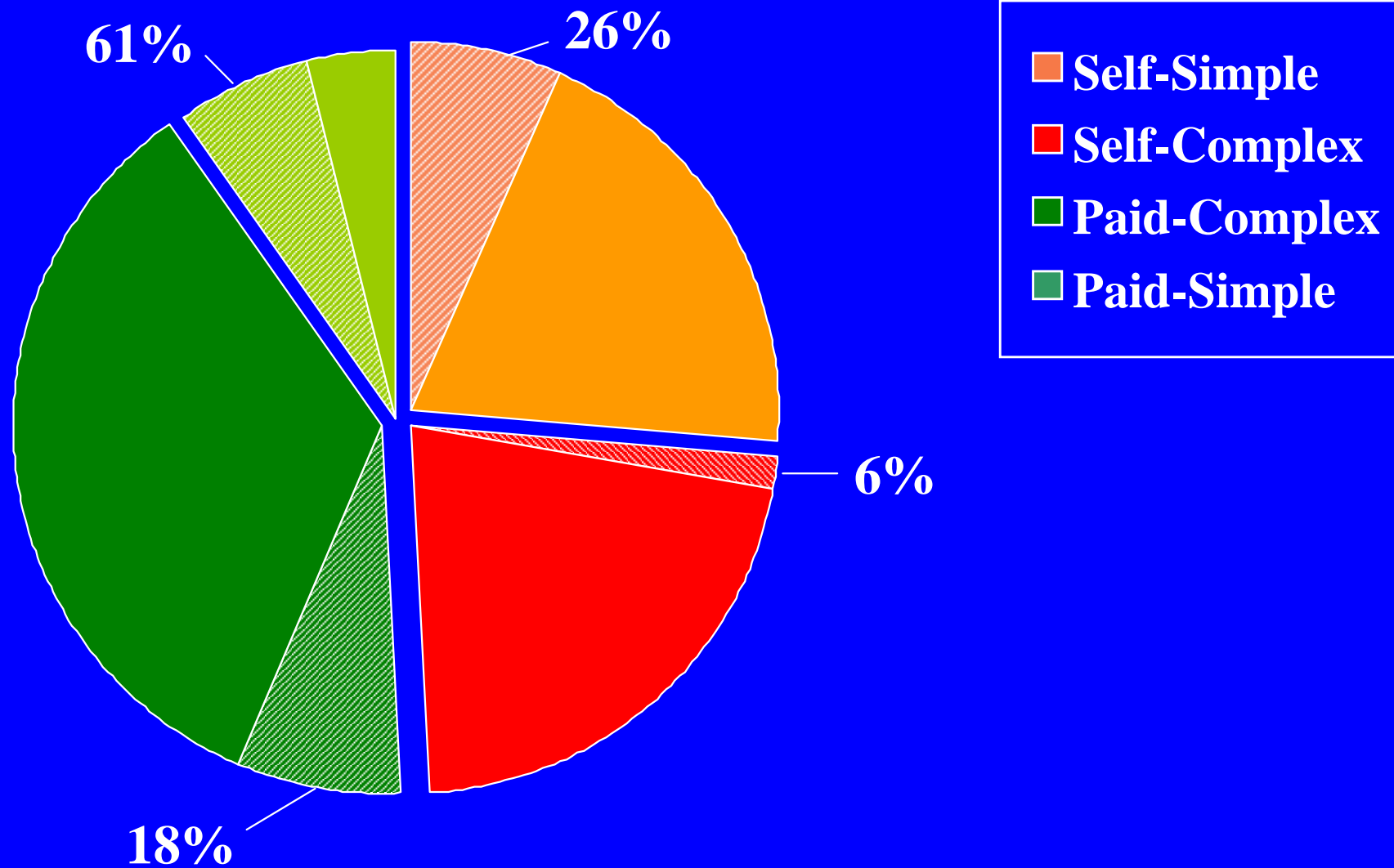
**Self Prepared
Simple Returns**



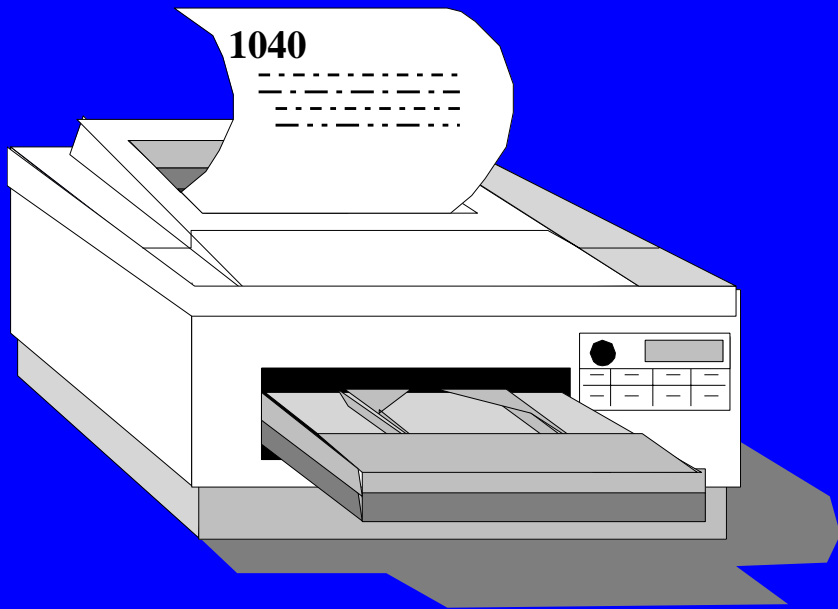
2007 Objective



Self Prepared Complex Returns had the Lowest *e-file* Penetration

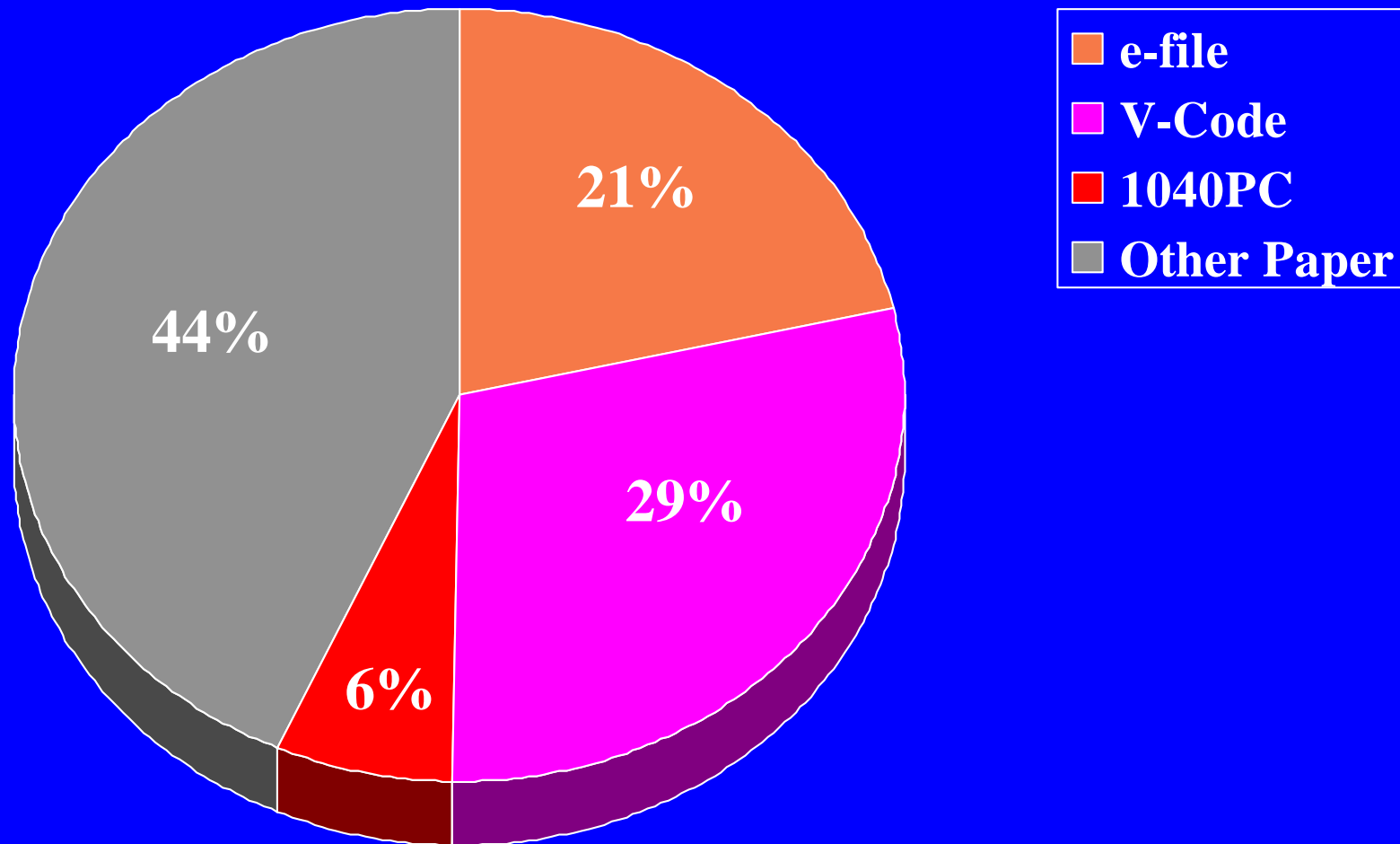


Computer Prepared Paper Returns

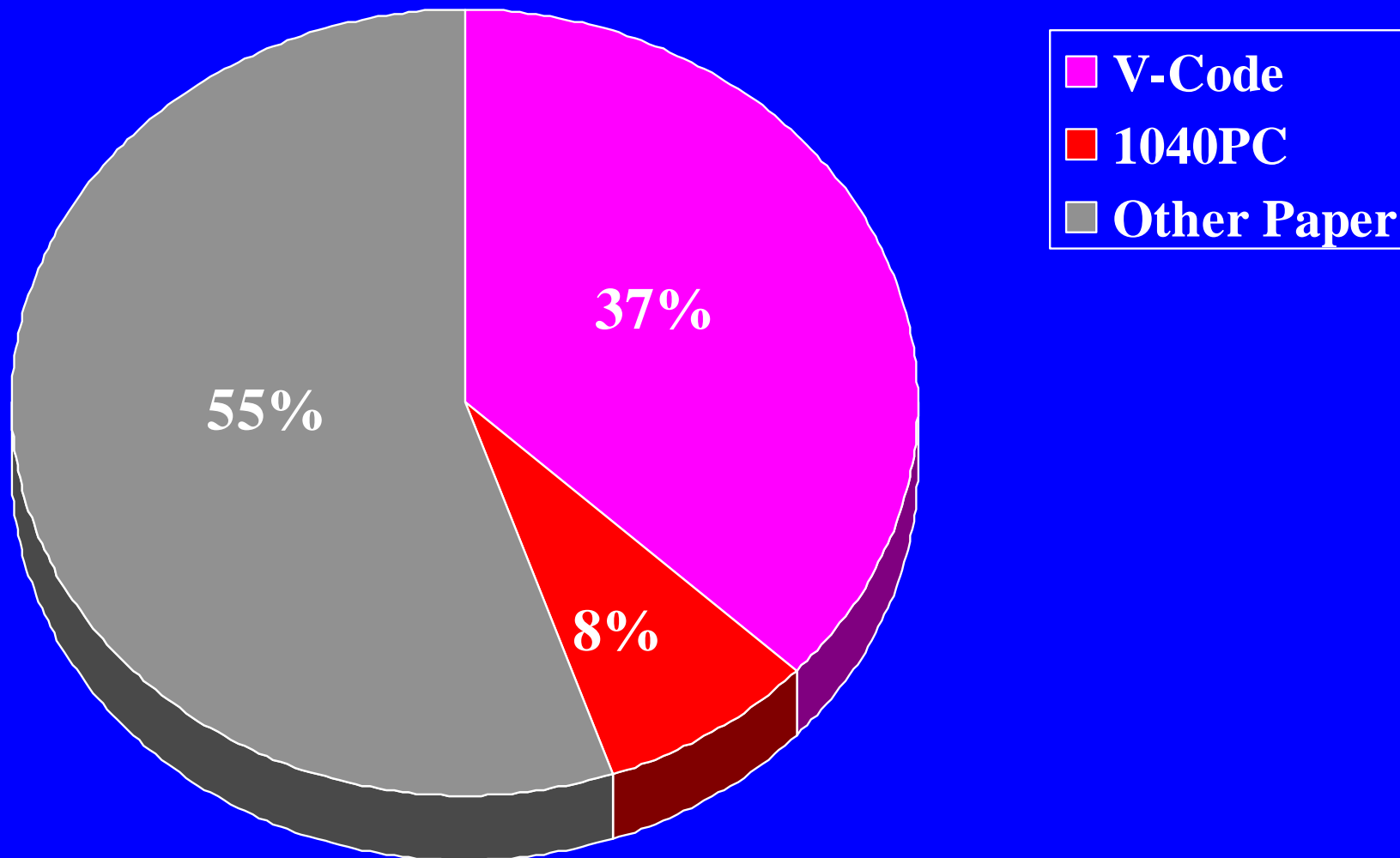


- ◆ 33 million V-Coded paper returns were prepared using IRS approved commercial software.
- ◆ Another 7 million Forms 1040PC were also prepared on a computer

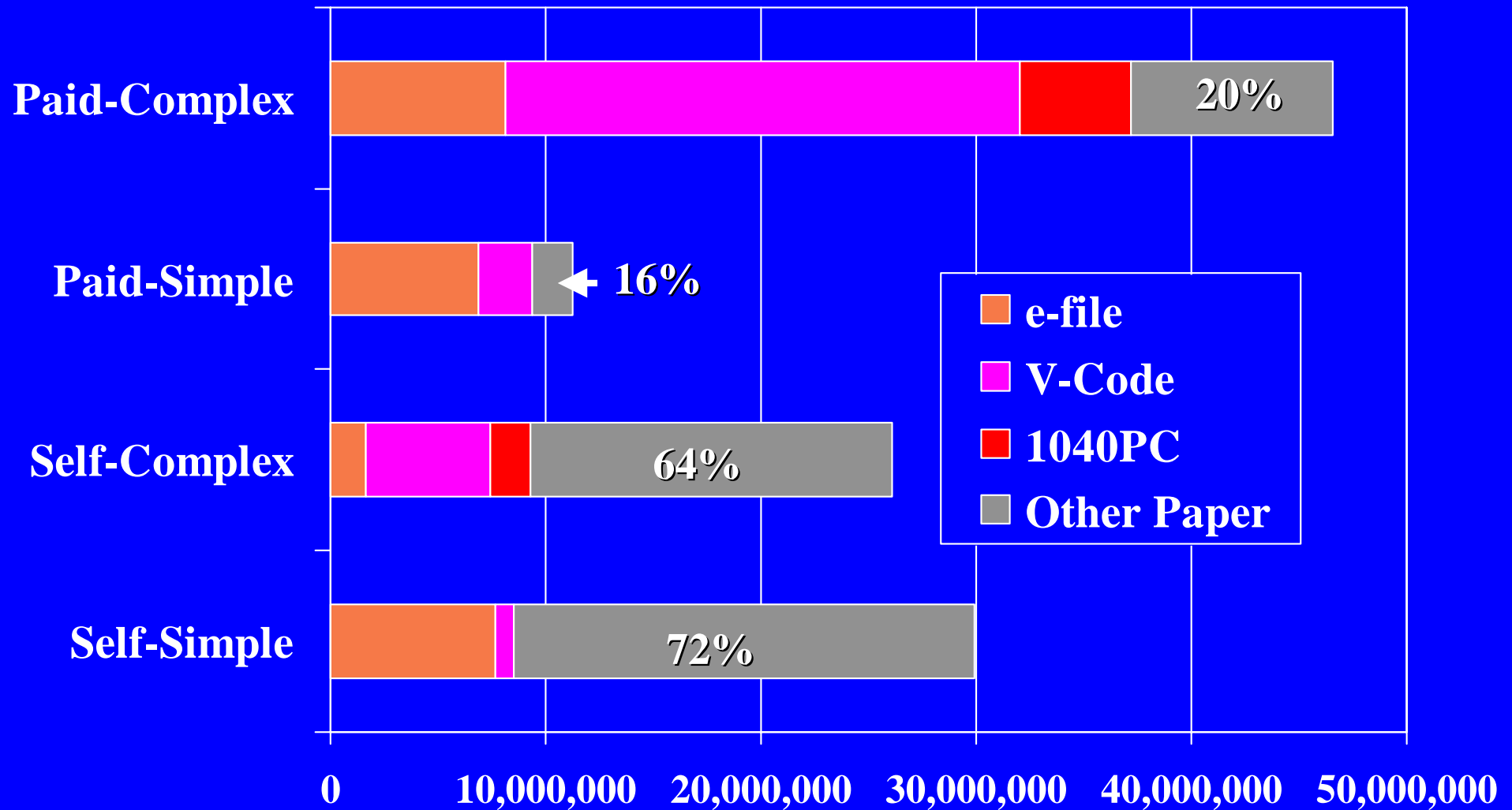
56% of The 114 Millions Returns Were Prepared on a Computer



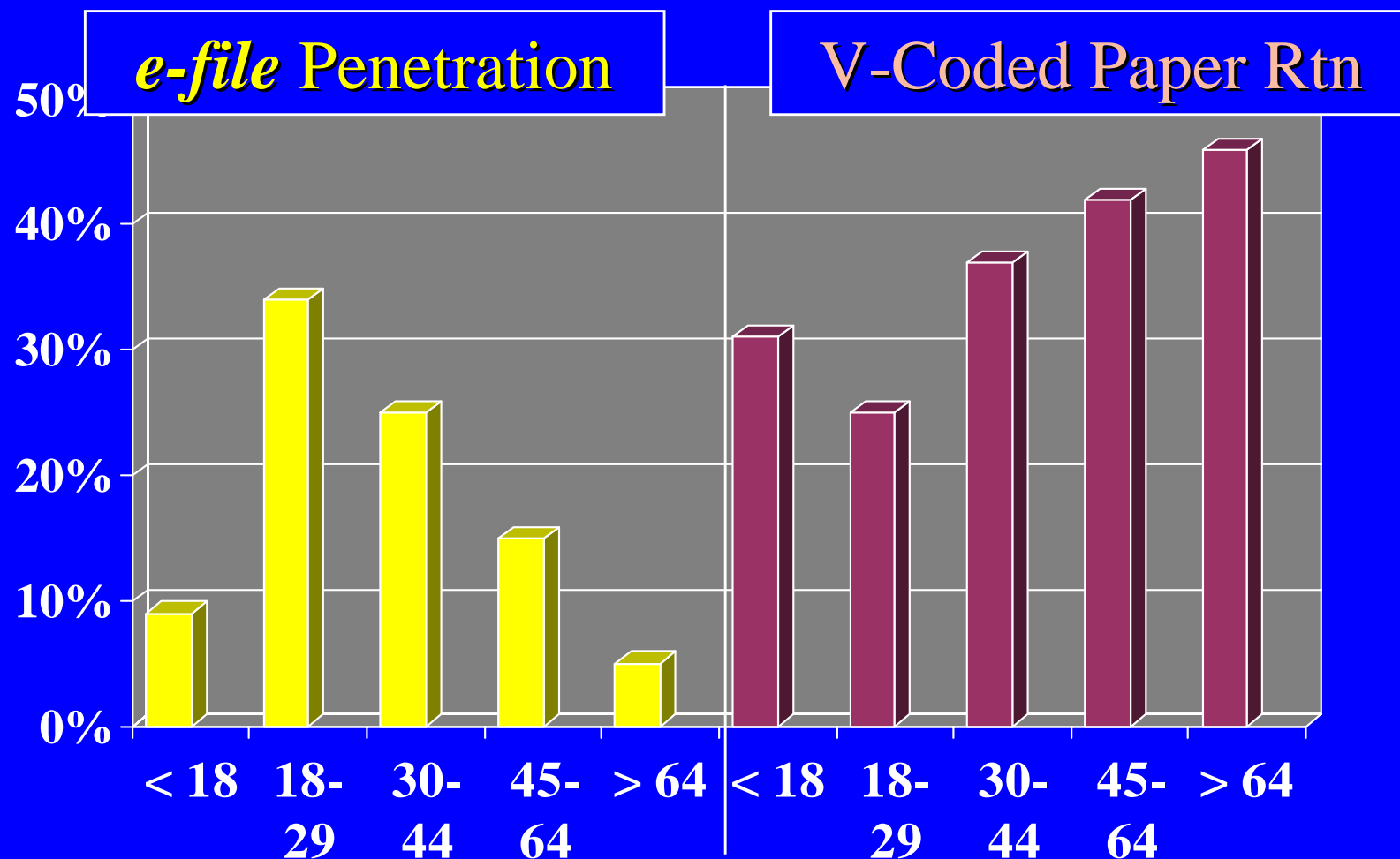
45% of The 89 Million Paper Returns Were Prepared on a Computer



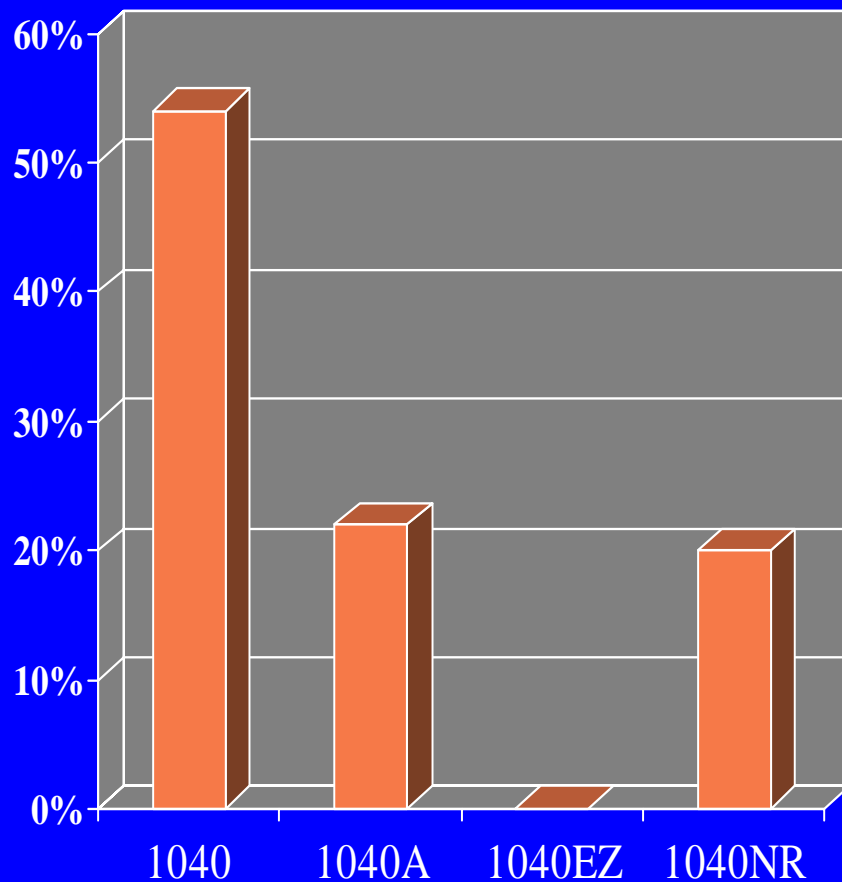
Only 19% of the Returns From Paid Preparers Were Not Computer Prepared



Comparison of *e-file* Usage and V-Coded Paper Returns by Age



Other Characteristics of V-Coded Paper Returns

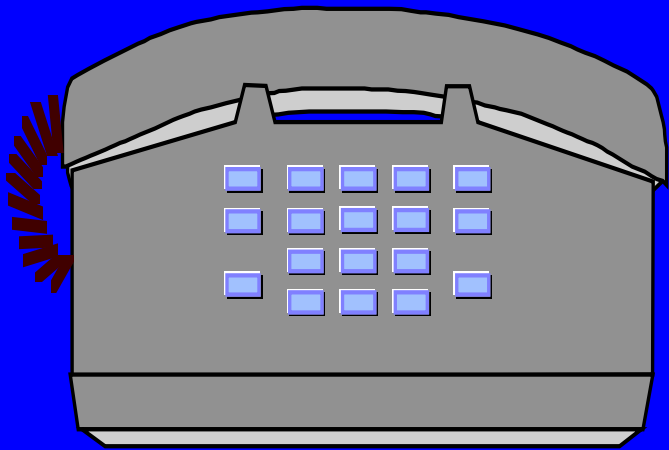


- ◆ Almost 50% of paper returns with MFJ filing status had a V-Code
- ◆ Single filers use the computer least often at 30% of the time.
- ◆ Almost 50% of all paper returns with an AGI over \$49,999 had a V-Code.

Observation

- ◆ To meet the IRS Restructuring and Reform Act mandated objective that 80% of all returns be electronically filed by 2007
- ◆ IRS will need to
 - Increase the *e-file* product line and marketing efforts for the 50% of all taxpayers that prepare their own returns
 - Encourage or mandate that paid preparers electronically file all computer prepared returns

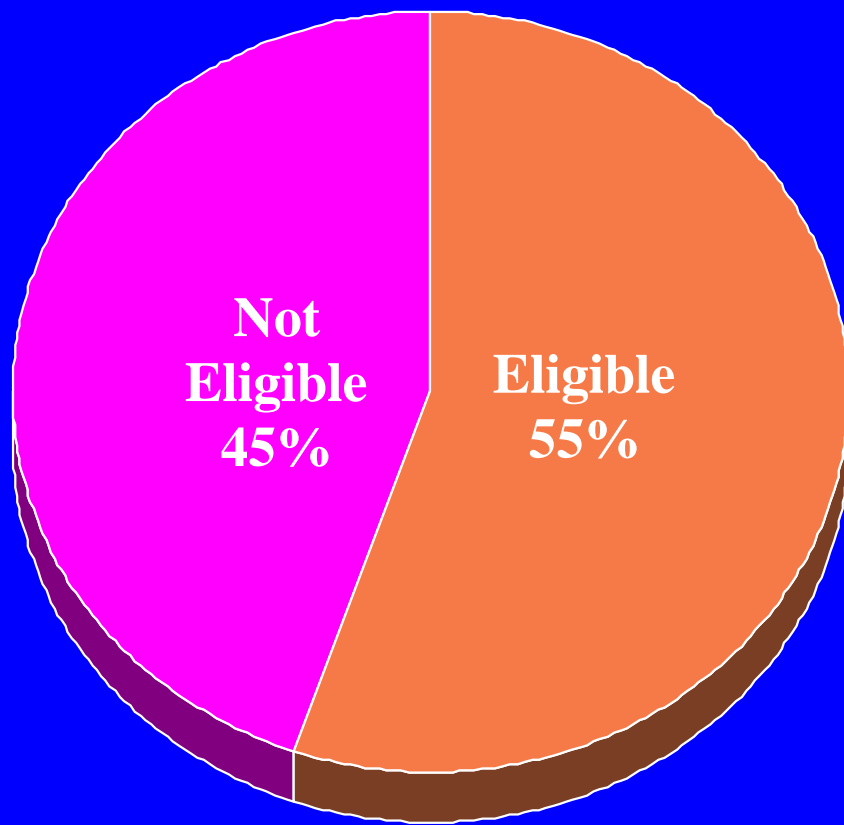
TeleFile Research Questions



- ◆ What was the TeleFile growth in 1998?
- ◆ Where did the growth occur?
- ◆ Were there significant changes in the profile of TeleFile users?

Retaining TeleFile Eligibility Continues to Be a Problem Area

Return Filers That Were Mailed a TeleFile PIN



Reasons for Ineligibility:

- ◆ Taxpayer moved, as evidenced by a change in the 9 digit zip code
- ◆ Changed filing status
- ◆ Over 65 years of age
- ◆ Income over \$50K
- ◆ Schedules attached to return
- ◆ Claimed dependents

TeleFile Accomplishments

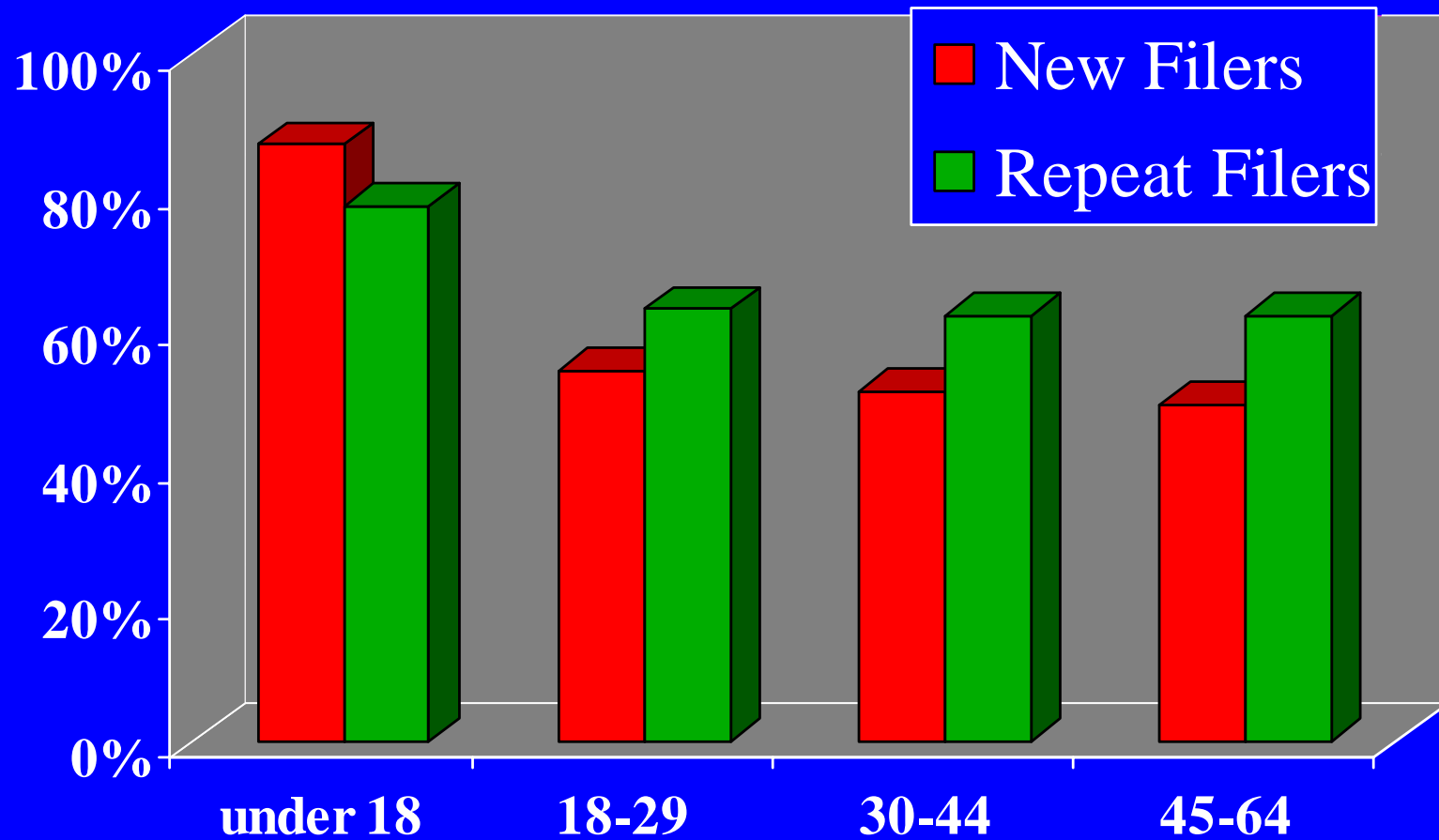
- ◆ TeleFile returns increased 26.3% to 5.9 million
- ◆ Repeat rates continue to increase:
 - T/P mailed TeleFile PIN - 67% (65% in 97)
 - T/P eligible for TeleFile - 85% (69% in 97)
- ◆ Overall penetration rate was 28%, compared to 21% in 1997
 - Penetration rate for those eligible to use TeleFile was 40%, compared to 33% in 1997

There was Significant TeleFile Growth in all Age Ranges

AGE	PY97	PY98	%CHANGE
Under 18	59,733	*258,230	382.0%
18-29	2,685,585	3,704,834	39.6%
30-44	947,315	1,231,989	32.0%
45-64	515,231	690,542	36.7%

* Increase may be due in part to greater accuracy of the age data

Repeat Rate and the Proportion of New Filers Decrease Slightly with Older Taxpayers



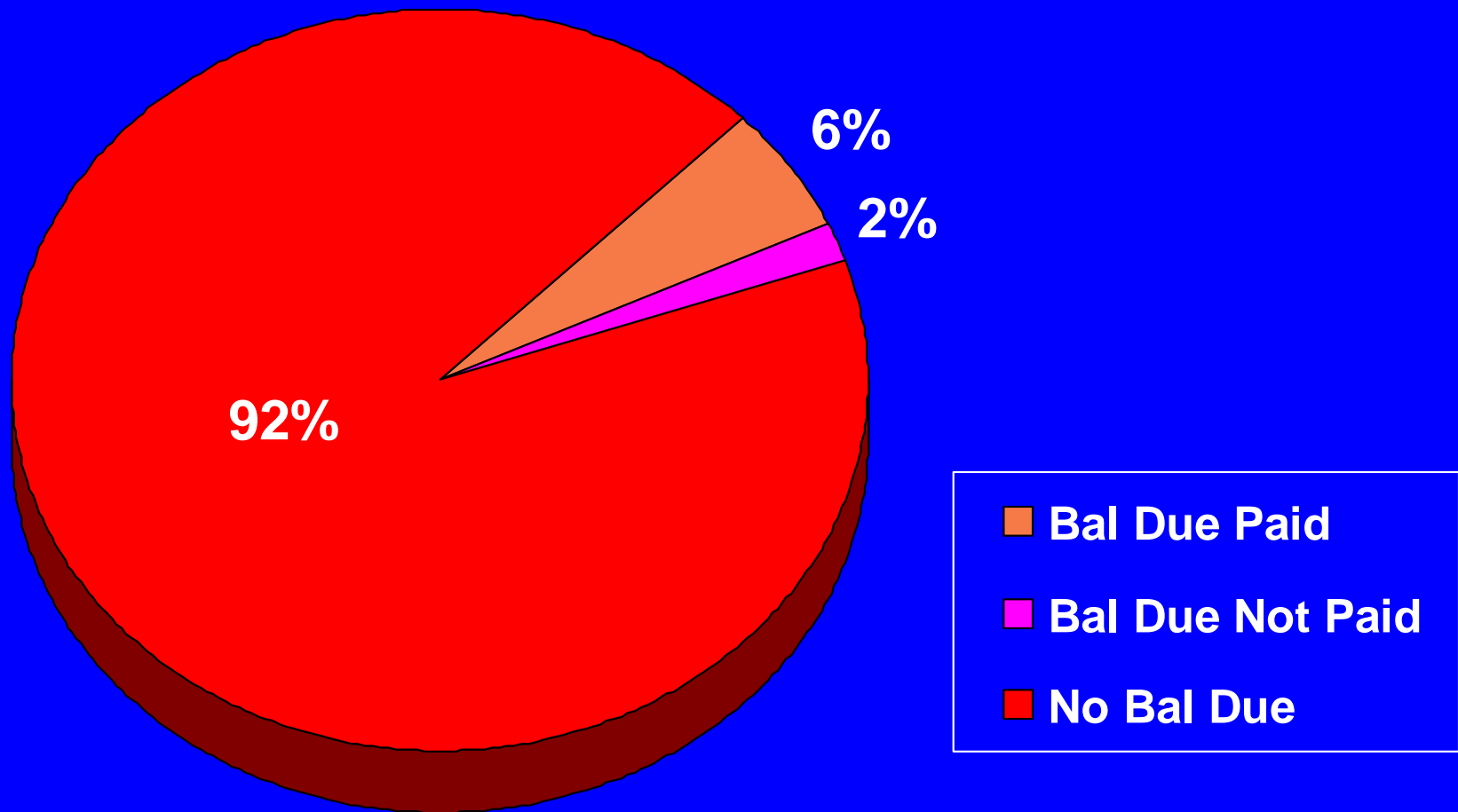
TeleFile Growth Occurred Fastest in the Higher AGI Categories

<u>AGI</u>	<u>Proportion</u>		<u>Change</u>
	<u>1997</u>	<u>1998</u>	
\$0-\$15K	56.3%	53.1%	(5.7%)
\$15-\$30K	32.1%	33.4%	4.1%
\$30-\$50K	10.8%	12.4%	15.3%

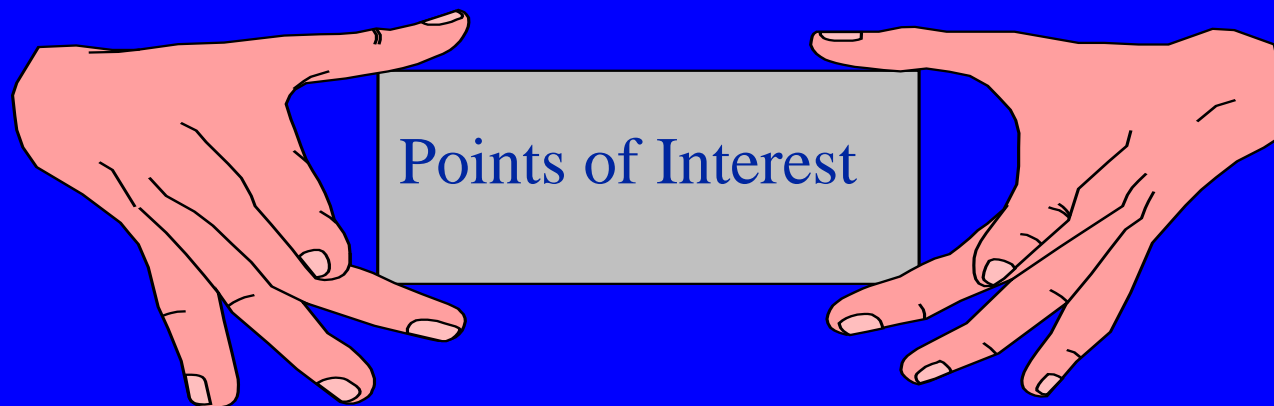
TeleFile Growth by Return Balance

<u>Return Balance</u>	<u>Growth</u>	<u>%Total</u>
Refund < \$500	21.5%	53.7%
Refund \$500-\$1499	35.1%	36.9%
Refund \$1500-\$2499	55.5%	1.4%
Refund > \$2499	51.7%	0.2%
Bal Due < \$500	38.7%	6.3%
Bal Due \$500-\$1499	49.5%	0.8%
Bal Due \$1500-\$2499	59.0%	0.1%
Bal Due > \$2499	51.4%	0.0%

Payment Compliance Was Very Good



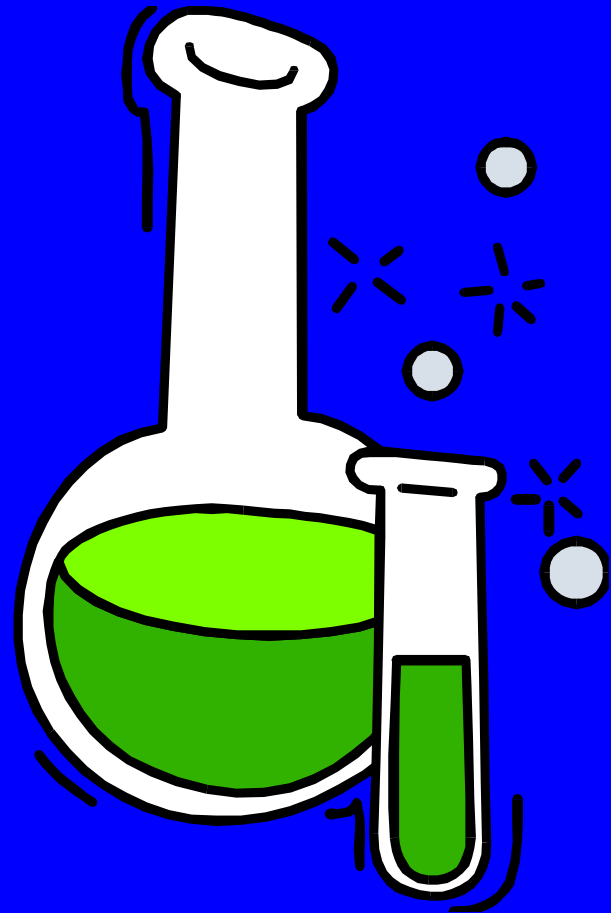
Other TeleFile User Information



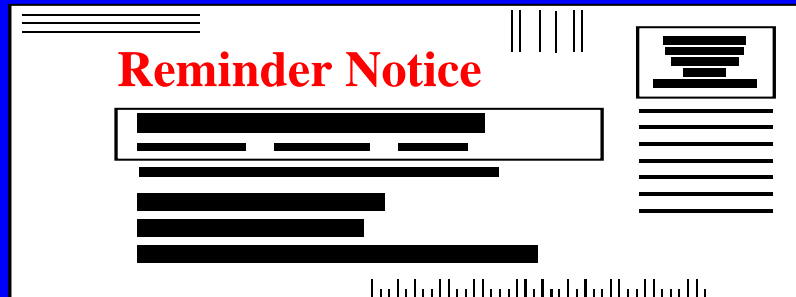
- ◆ 86% of TeleFile packages went to single taxpayers
- ◆ 96% of TeleFile returns were filed by single taxpayers
- ◆ Percent of returns claiming EIC remained constant at 5%
- ◆ 19% of TeleFile users requested and received Direct Deposit

Research Questions

- ◆ What was the impact of the TeleFile postcard reminder test in five districts?
- ◆ What was the impact of the TeleFile National Change of Address Program?



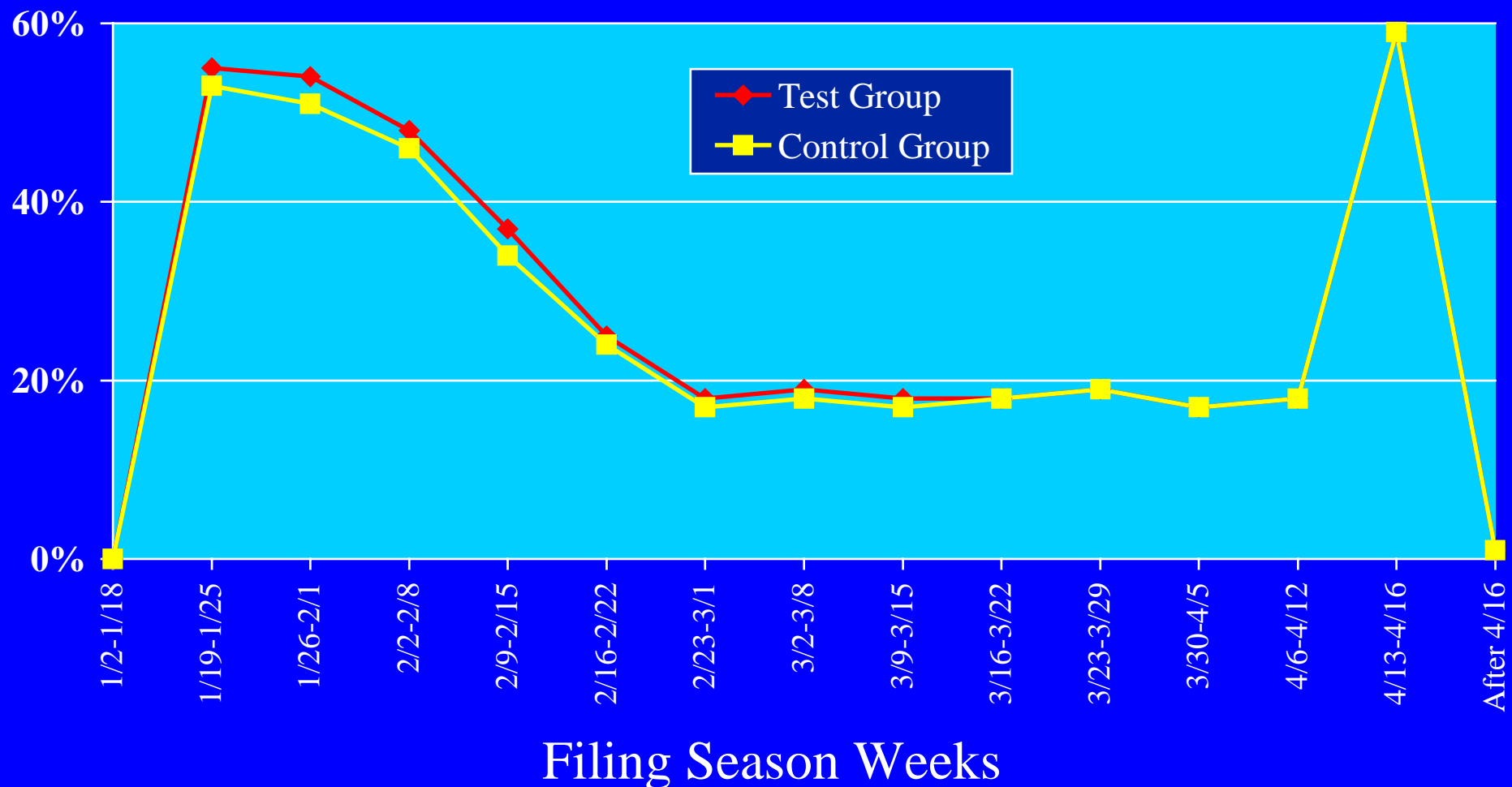
TeleFile Postcard Reminder Test



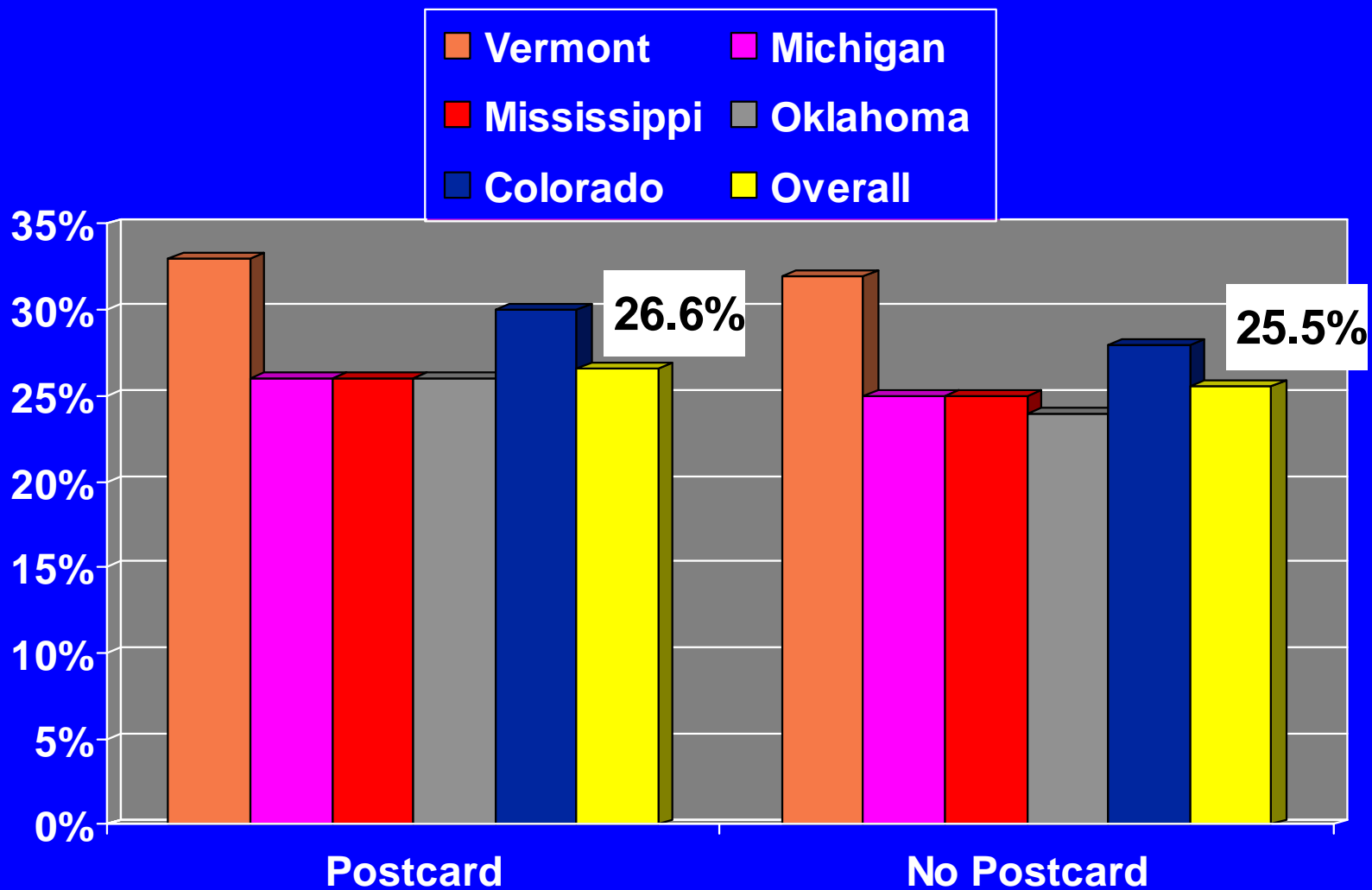
- ◆ Involved taxpayers in Colorado, Michigan, Mississippi, Oklahoma and Vermont who were sent a TeleFile PIN
- ◆ Test group included 716,085 taxpayers that had not used TeleFile in the prior year
- ◆ Reminder postcards were sent the last week in January
- ◆ Identified similar control group to measure impact

Only a Slight Difference in Rate of Usage by Test and Control Groups

Percentage of TeleFile use by Postcard recipients and non recipients.



Penetration Rate for the Test Group Was Only Slightly Higher



Postcard Test - Cost/Benefit Analysis

- ◆ 662,443 postcard recipients had filed returns by 8/1/98 extract
- ◆ We estimate that the postcard reminder resulted in 4,959 additional TeleFile users
- ◆ At 19 cents each, postage was \$136,056
- ◆ Postage cost alone for each additional TeleFile user is estimated to be \$27.44

National Change of Address Program



- ◆ Purchased US Postal Service Change of Address Database
- ◆ Updated addresses on 2,126,074 TeleFile packages

Over One Million Taxpayers (51%) Were Still Ineligible to Use TeleFile

Reason for Ineligibility

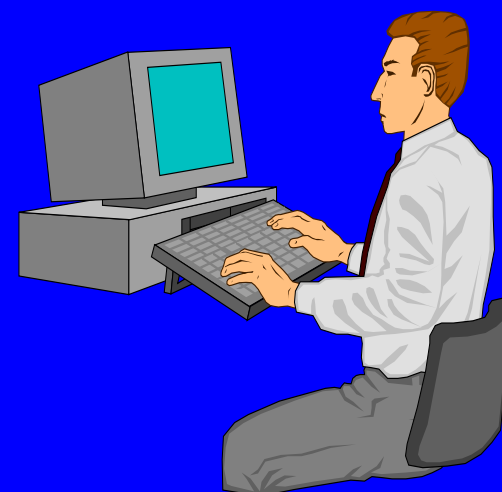
Taxpayer Moved Again	60%
Changed Filing Status	4%
Income over \$50,000	1%
Filed Return Schedules	10%
Claimed Dependents	1%
More than 1 Reason	25%

Conversely

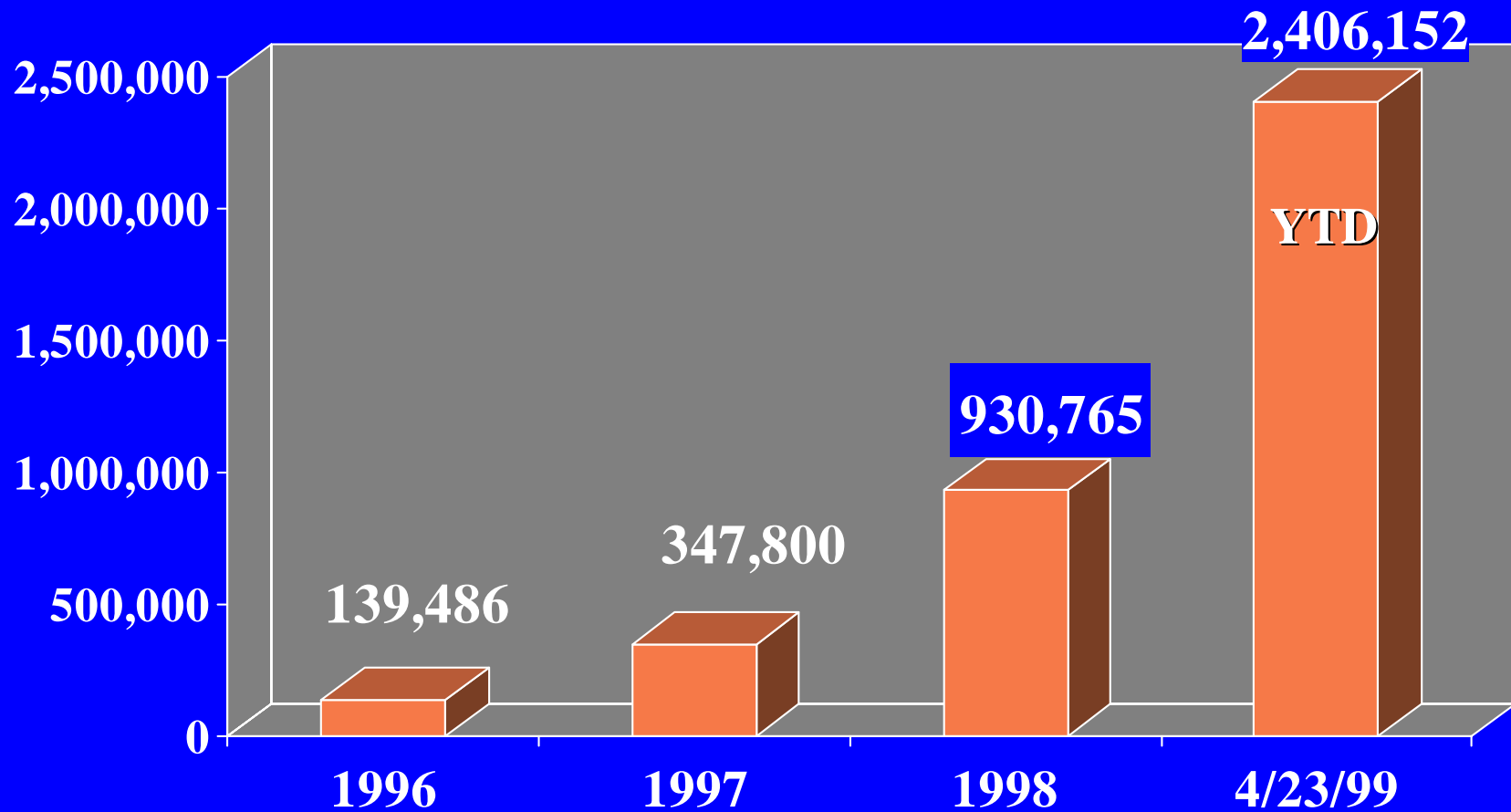
- ◆ By updating addresses, 1,051,586 taxpayers were eligible to use TeleFile who otherwise would not have been, and
- ◆ 473,191 of those taxpayers actually used TeleFile.
- ◆ This represents 8% of the 5.9 million TeleFile users.
- ◆ Contractor cost was \$52,879, or approximately \$.11 per additional TeleFile user.

On-Line Filing

Keeps Growing...and Growing
and Growing.....

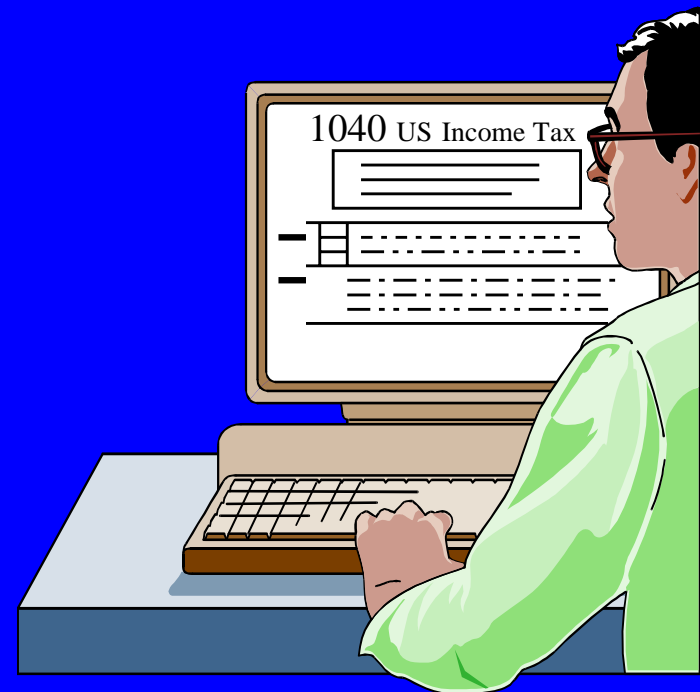


Over 16 Fold in 3 Years



On-Line Research Questions

- ◆ What are the repeat rates for On-Line usage?
- ◆ Are there differences in the profiles of repeat and new On-Line users?



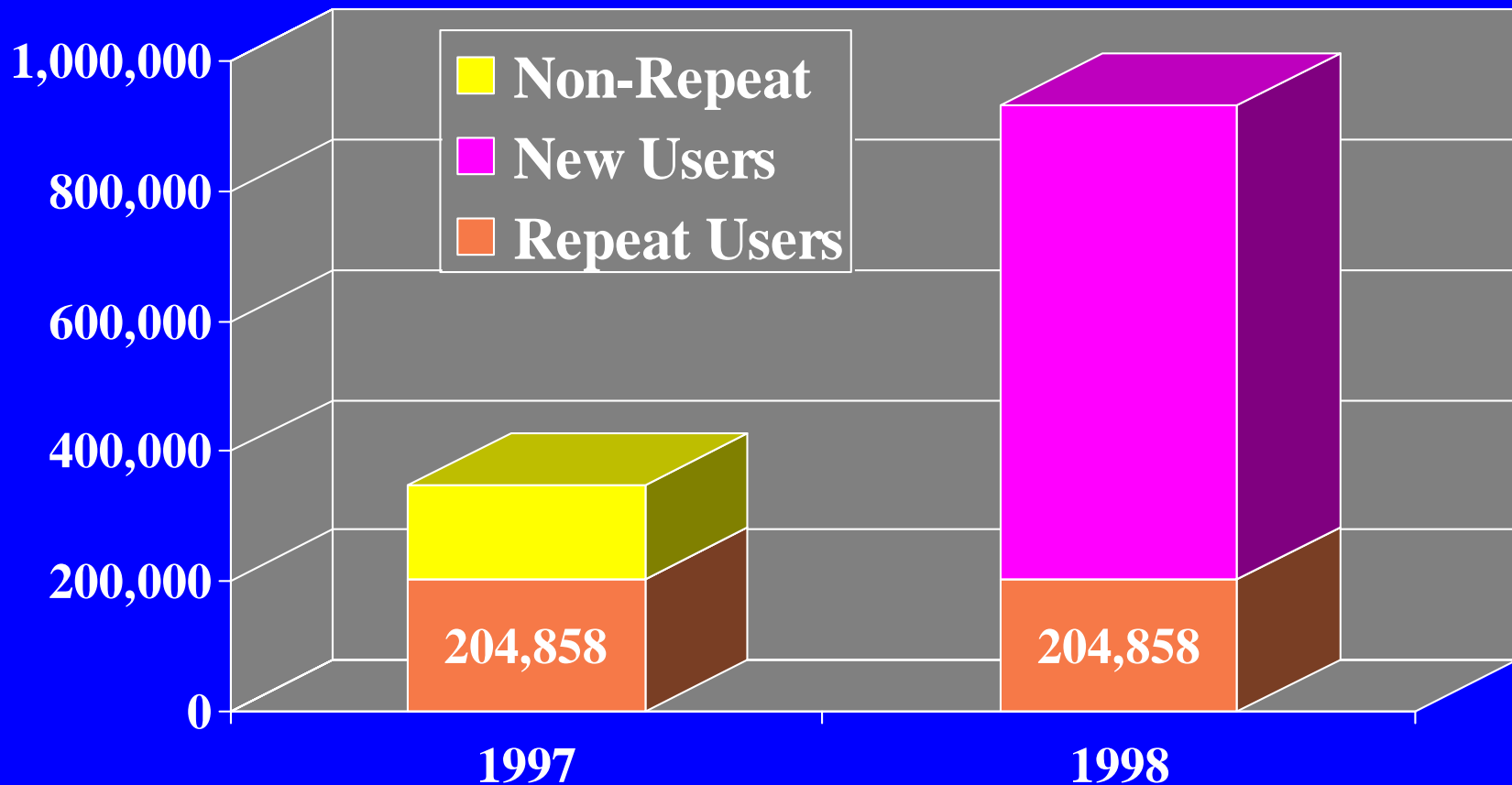
On-line Repeat Rates Were

Current Year (1997 to 1998) 59%

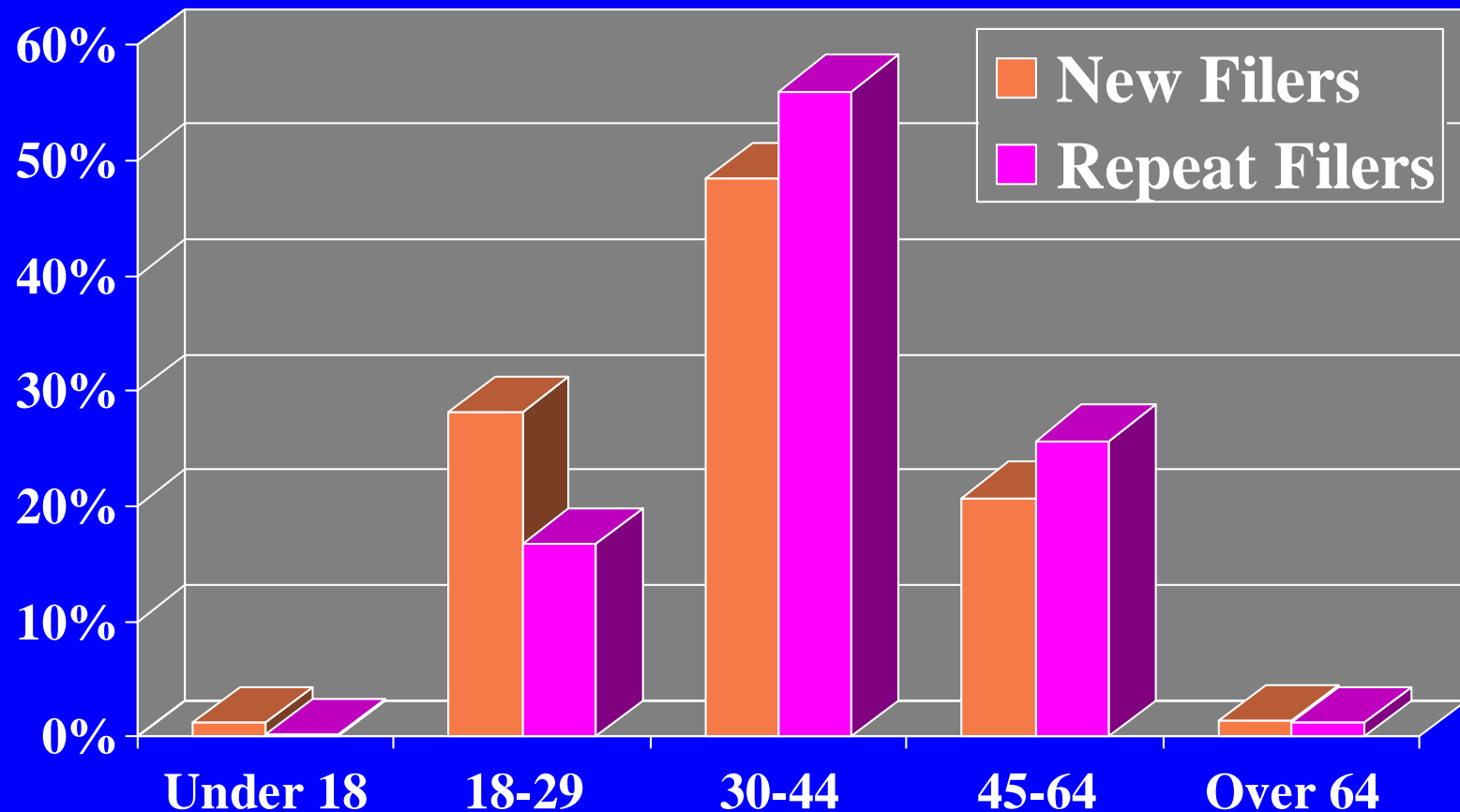
Prior Year (1996 to 1997) 52%

Over Two Years (96 to 98) 49%

205 Thousand On-line Users in 1997 Repeated Use in 1998



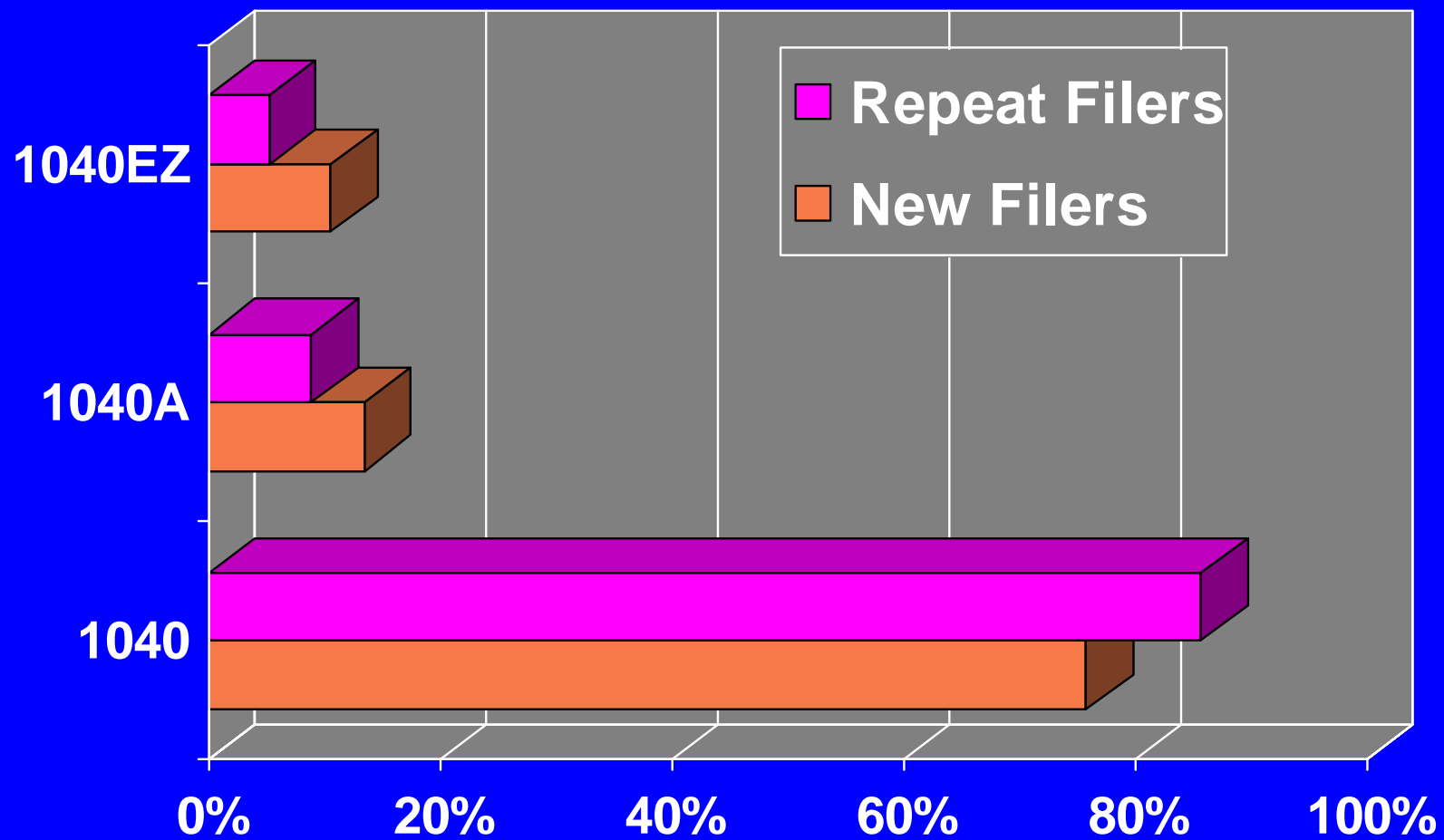
New On-Line Filers Tend to be Younger than Repeat Filers



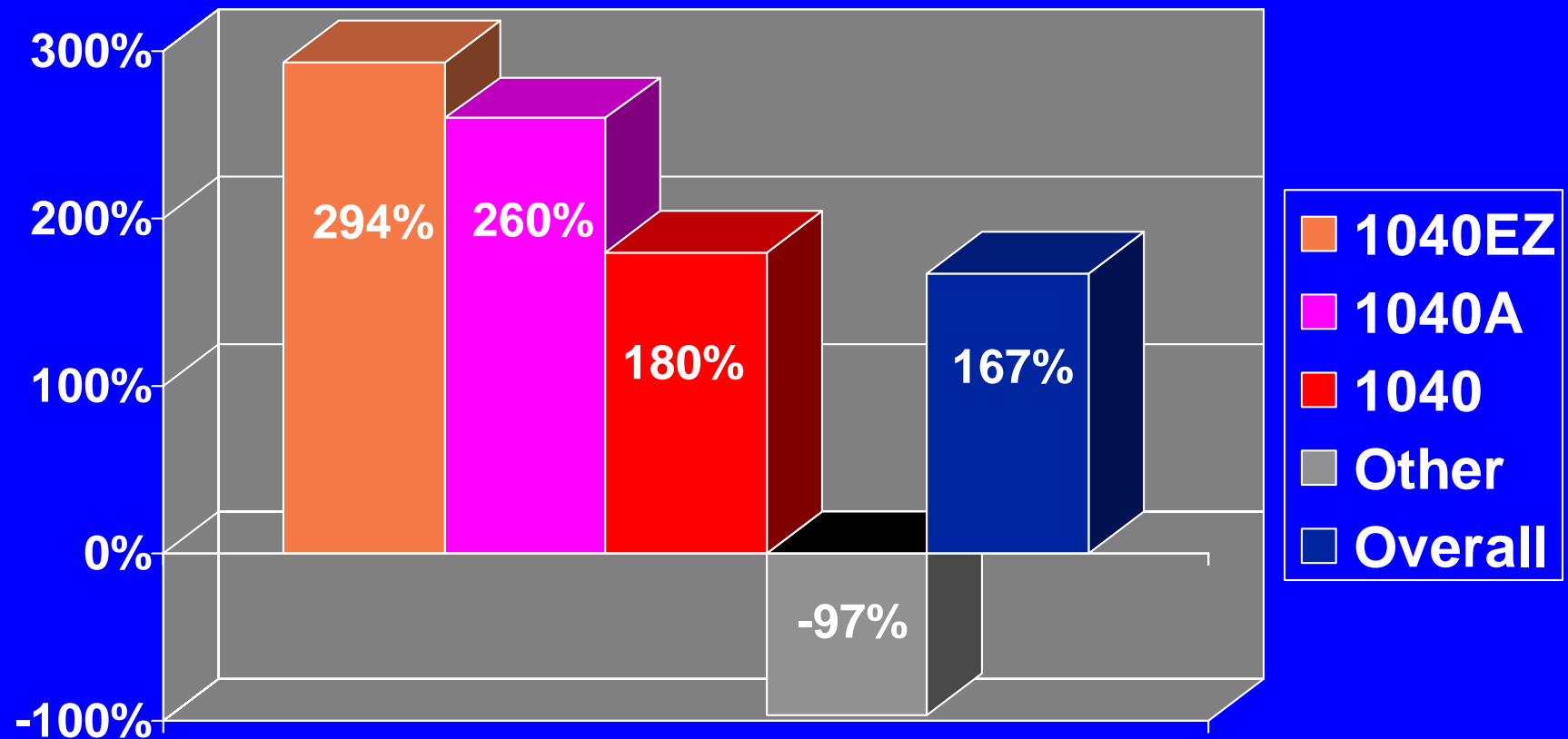
Married On-Line Users Repeated 63% of the Time

Filing Status	New Filers	Repeat Filers	Total Filers
Single	32.0%	24.2%	30.3%
Married Filing Joint	52.3%	62.9%	54.6%
Head of Household	14.6%	12.0%	14.0%

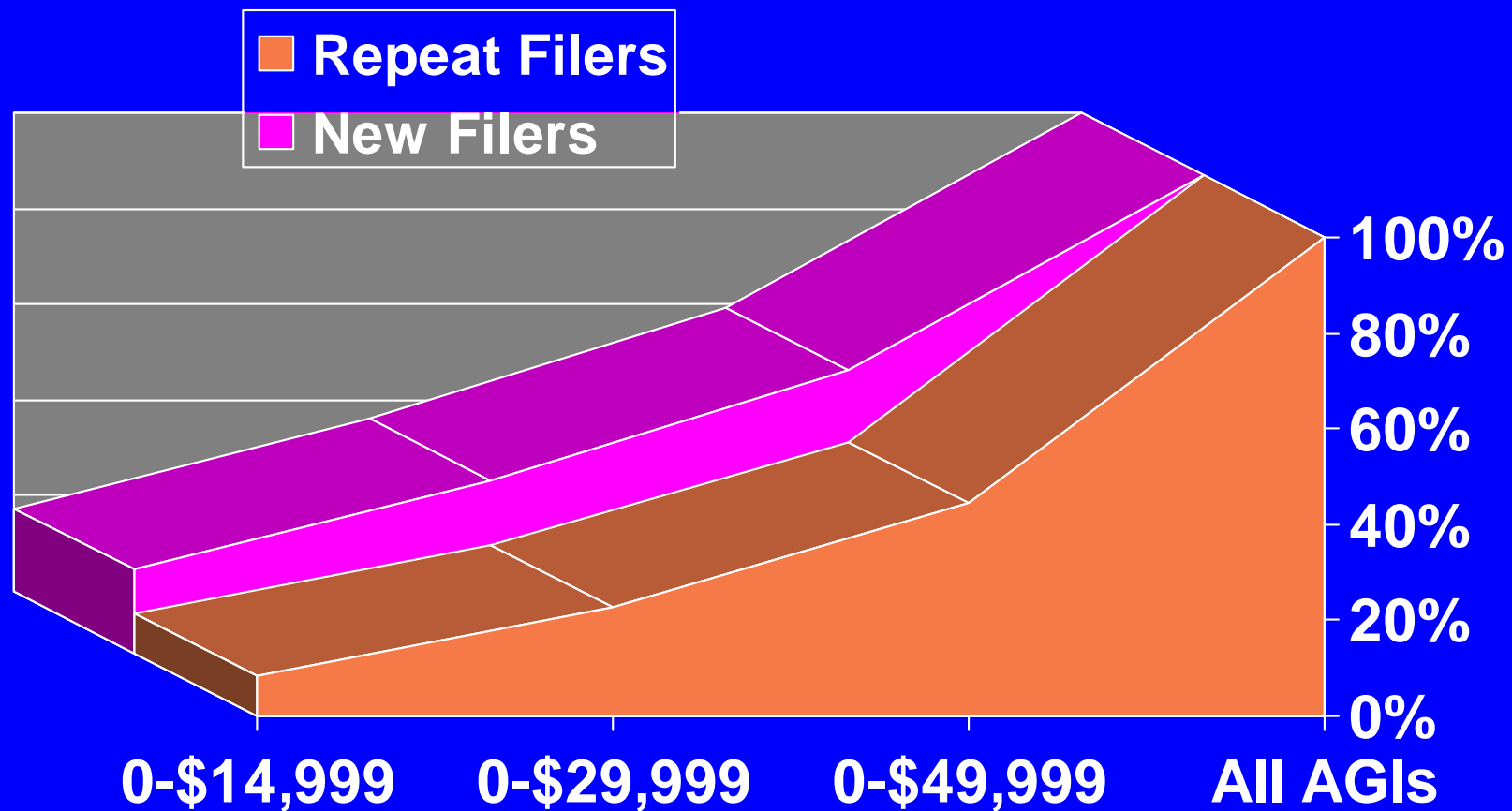
Form 1040 was the Predominant Return Filed by On-line Users



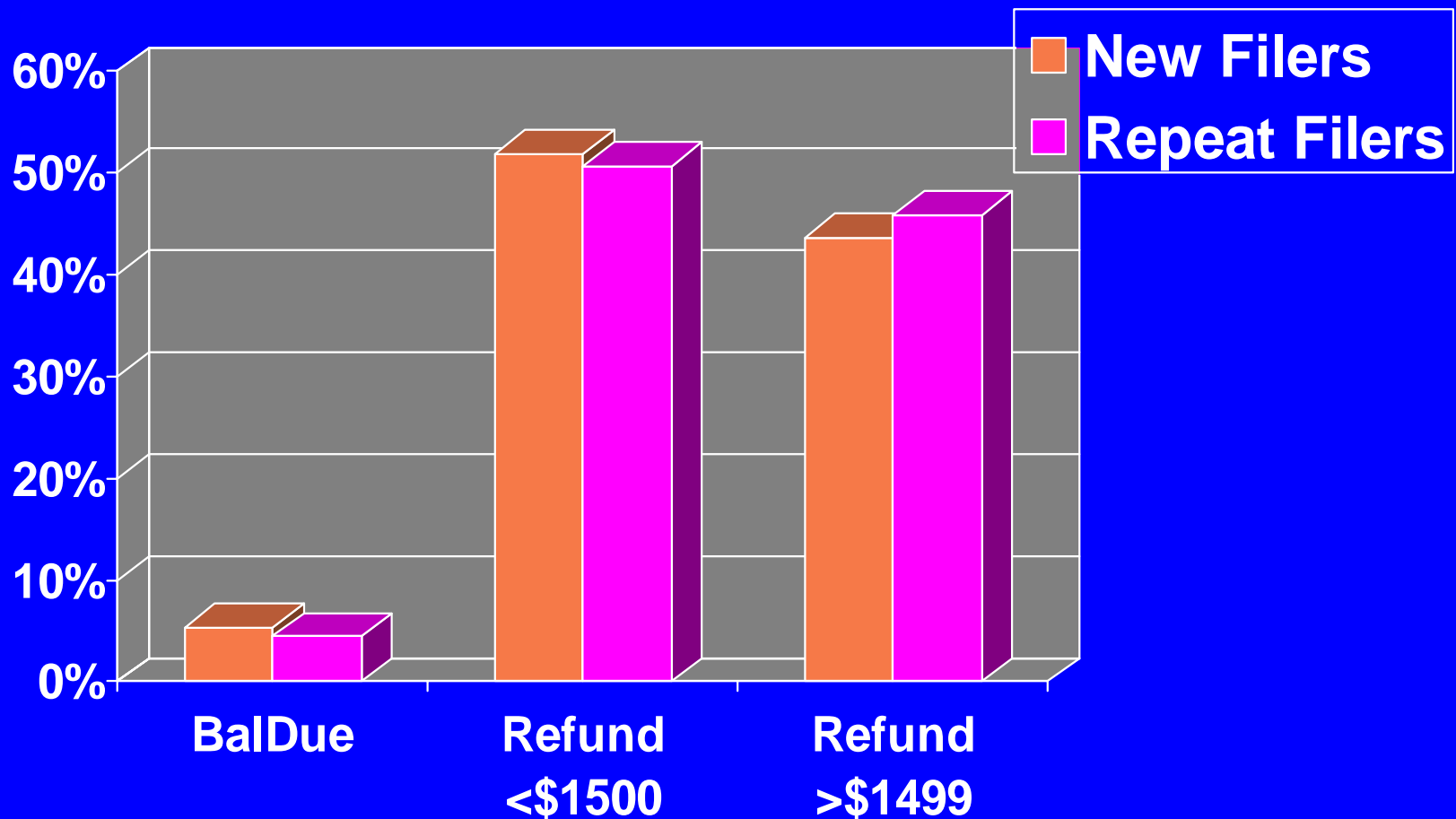
And Form 1040EZ Had the Highest On-line Growth Rate



New On-line Users Have Lower AGI Than Repeat Users

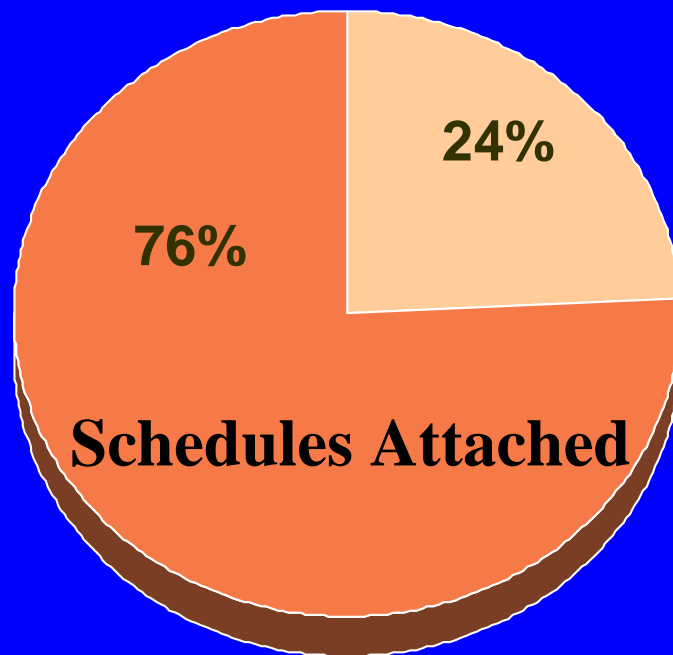


Repeat On-Line Users Have Slightly Higher Refunds

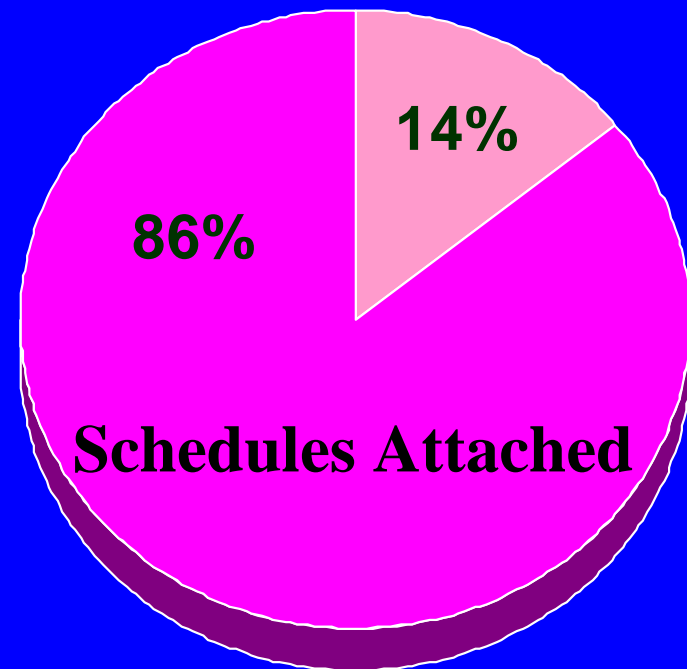


And Repeat On-Line Users File More Complex Returns

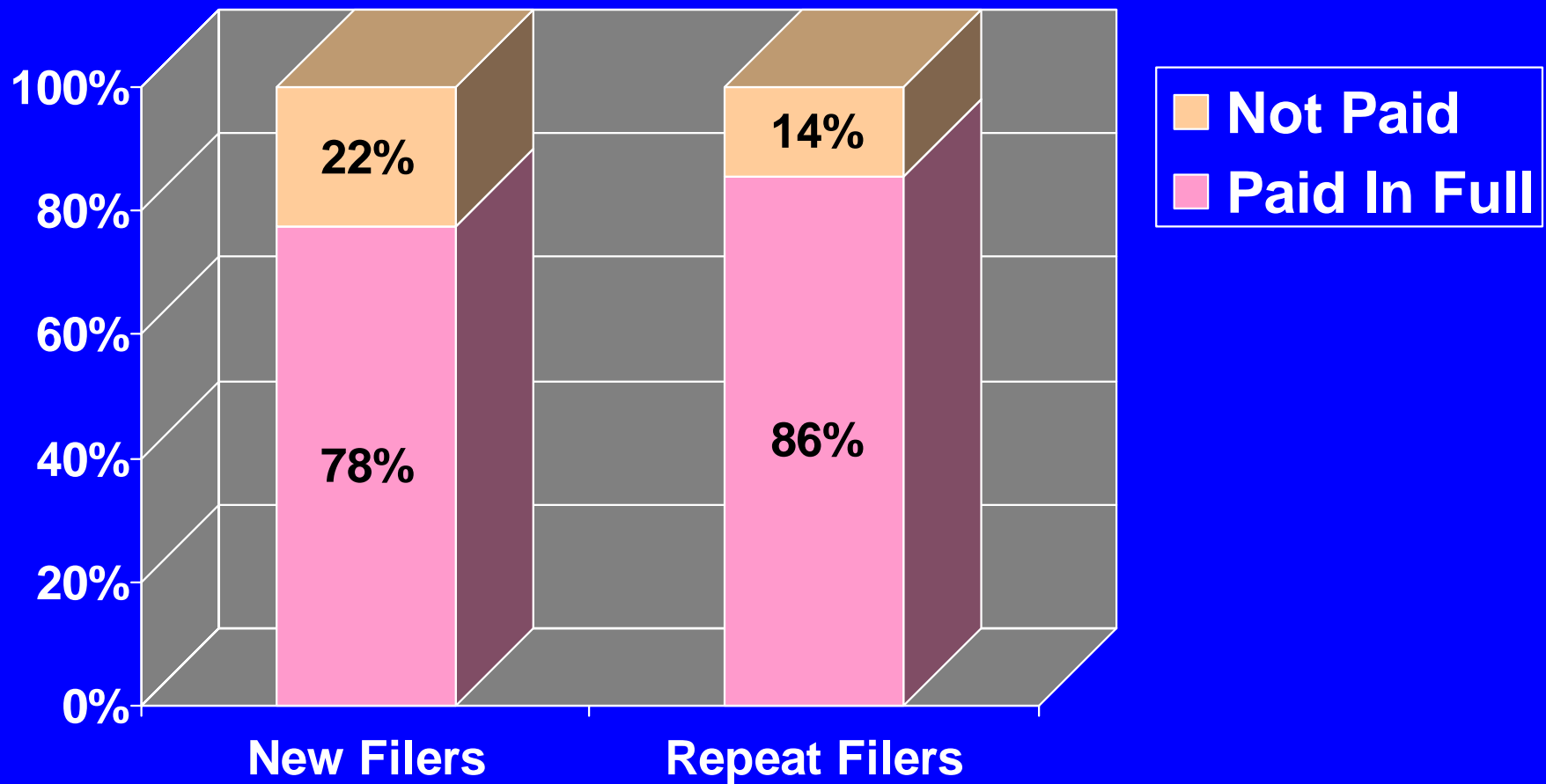
New Filer



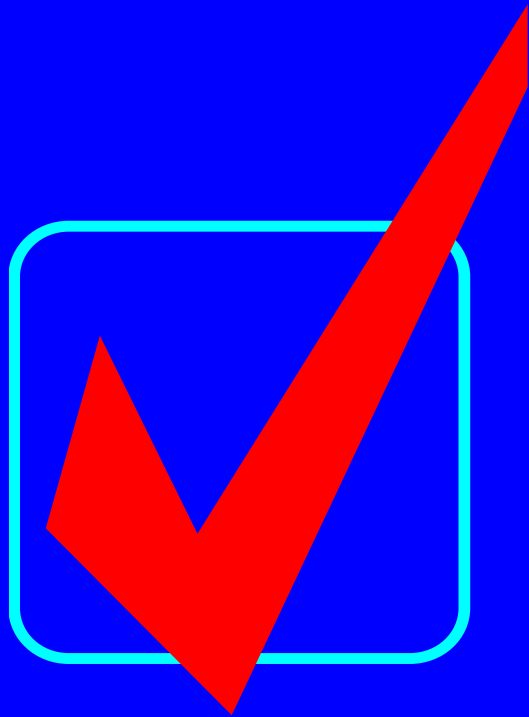
Repeat Filer



New On-Line Filers More Often Had a Balance Due Which Was Not Paid



Request for Direct Deposit On-Line



- ◆ 67% of all On-Line users requested Direct Deposit
- ◆ Less than 1% rejected
- ◆ 76% of repeat users requested Direct Deposit
- ◆ **Only 2 rejects** for all requests by repeat On-Line users

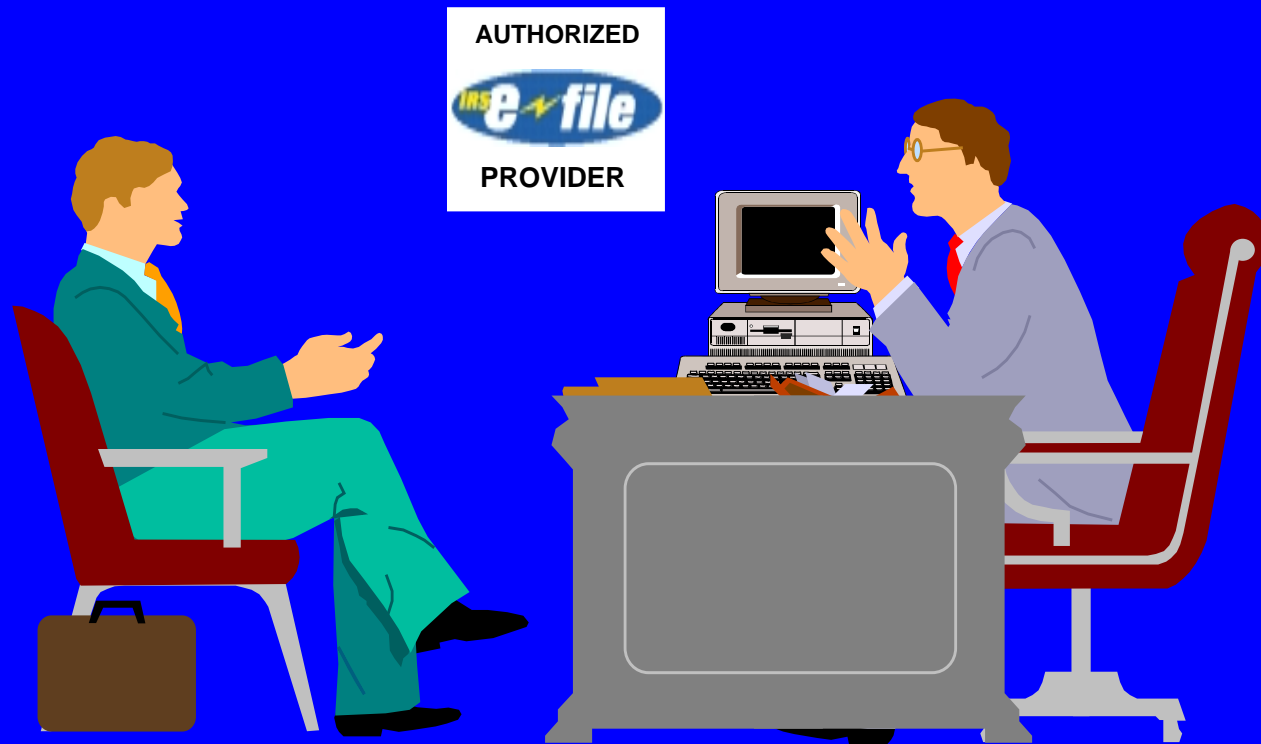
On-Line Filing Summary

Based on two years' data:



- ◆ Younger, lower income taxpayers are being attracted to the On-Line filing option;
- ◆ But are not being retained at the same rate as the older, higher income taxpayers.

Practitioner Electronic Filing (ELF)



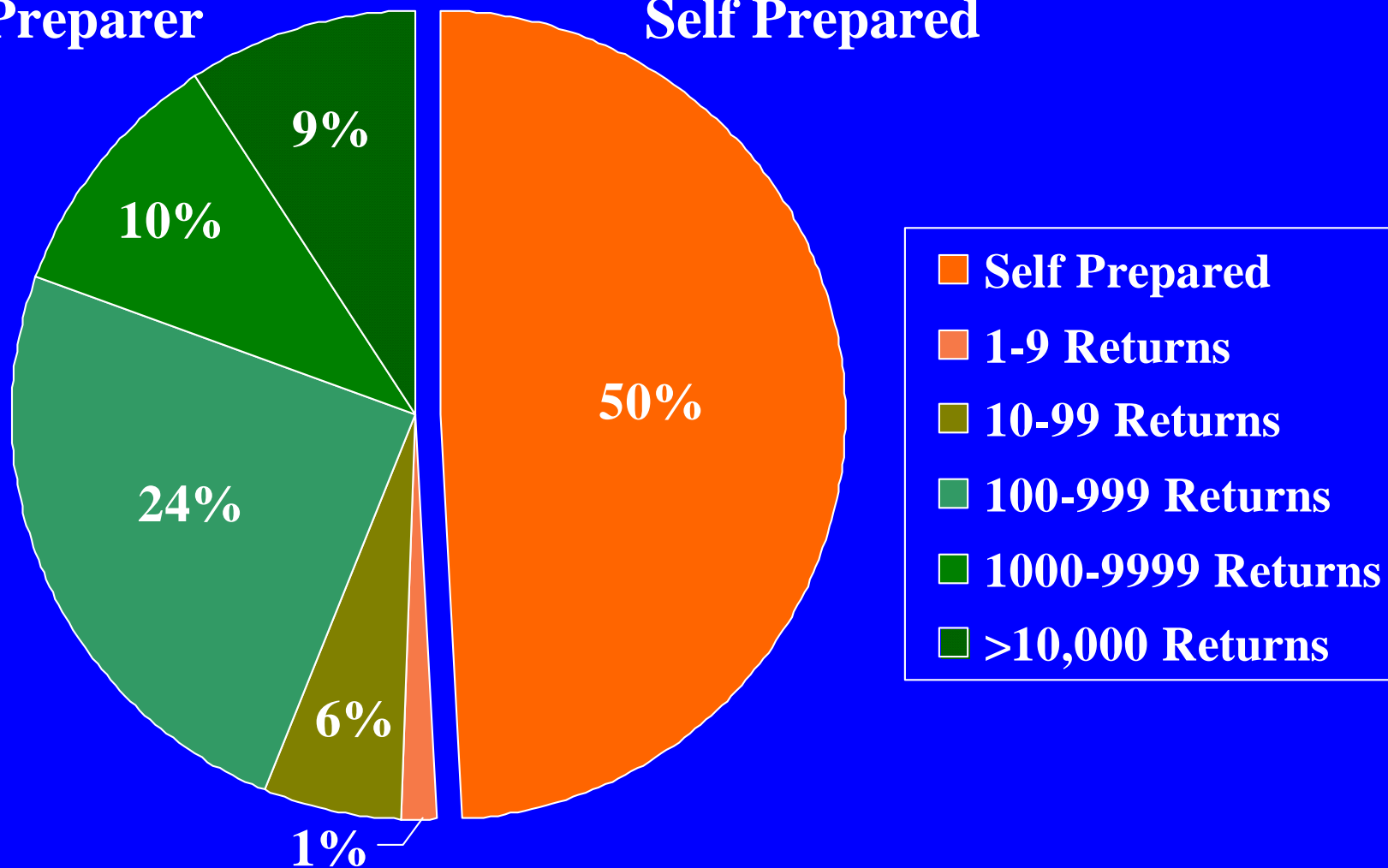
To Assist ETA Account Representatives in Marketing ELF

- ◆ Identified high volume return preparers and determined the proportion of returns filed electronically from each.
- ◆ Identified return preparers in each IRS District and determined the proportion of returns filed electronically, both during and after the filing season
 - In PY97 only 1% of paid preparer returns filed after April 15 used *e-file*

19% of All Returns Filed Are Prepared by Practitioners Who Prepare > 999 Returns

Paid Preparer

Self Prepared

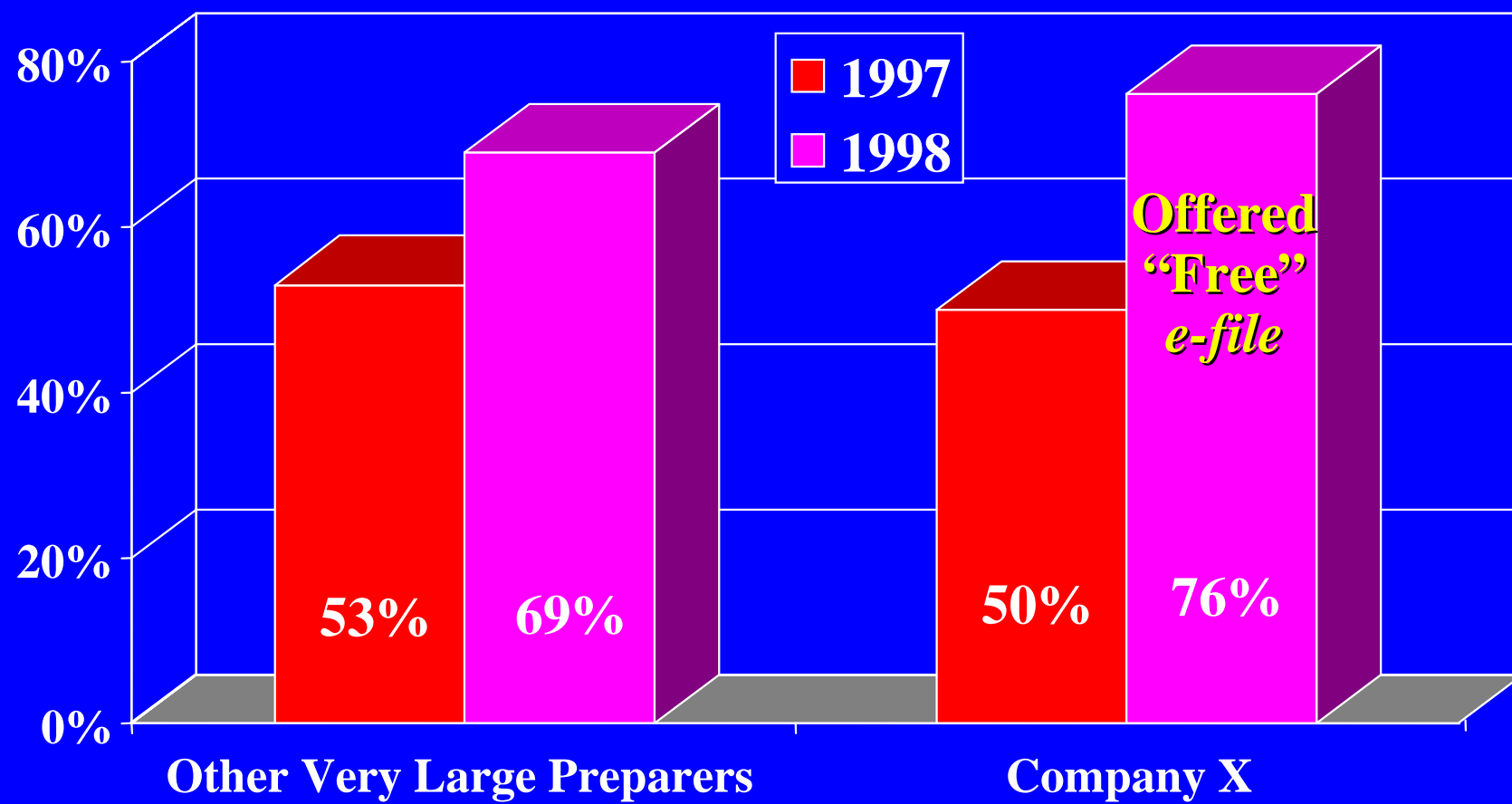


81% of All Returns Prepared by Practitioners Were on a Computer

Return Volume	Number Preparers	Total Returns	Percent of Returns Prepared on a Computer			
			e-file	V-Code	1040PC	Total
1 to 9	737,656	1,415,507	02%	50%	02%	54%
10 to 99	178,078	6,418,252	05%	60%	02%	67%
100 to 999	95,073	27,710,625	13%	59%	04%	76%
1000 to 9999	6,498	11,945,469	38%	38%	12%	88%
> 9999	66	10,308,255	65%	10%	25%	100%
Total	1,017,371	57,798,108	26%	46%	9%	81%

The Offering of “Free *e-file*” May Improve ELF Penetration

ELF Penetration for Returns Filed by April 15



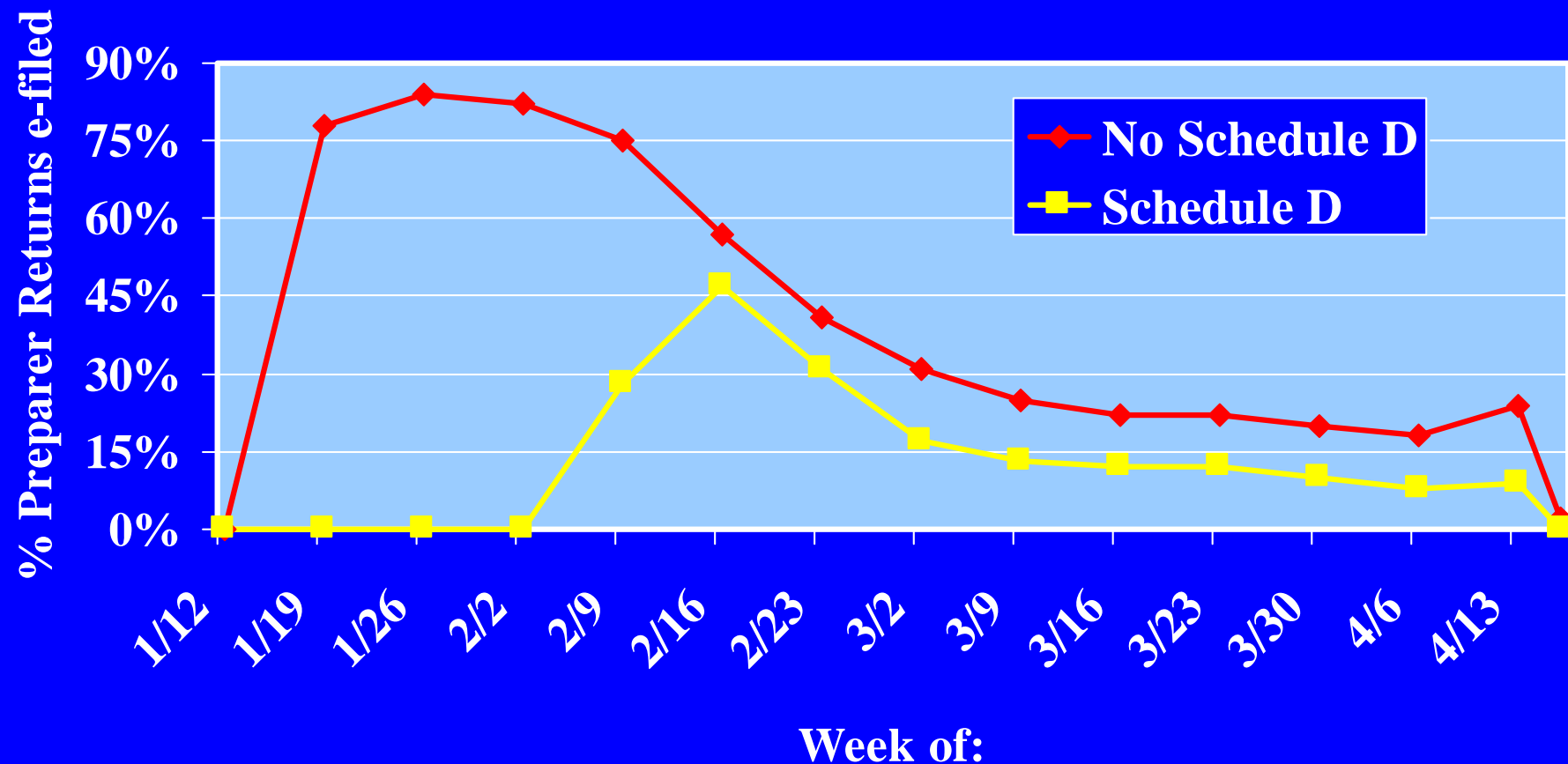
One Preparer Accounted for 36% of the ELF Returns and 53% of the Growth

Returns Filed by April 15

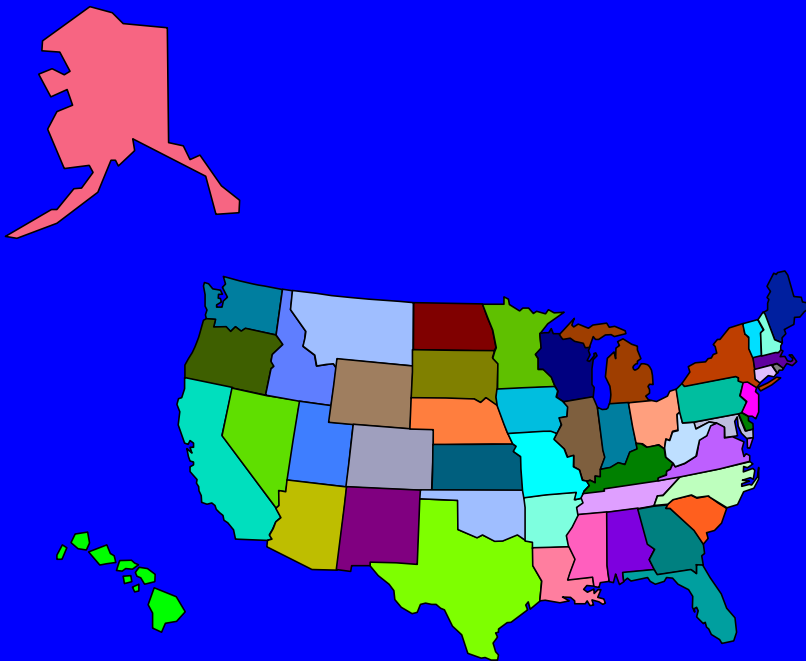
Class of Preparer Based On Return Volume	PY 1997		PY 1998		Change in ELF	% of Change
	Returns	ELF	Returns	ELF		
0 - 9	1,299,080	29,097	1,148,886	28,770	-327	0.0%
Oct-99	6,189,380	340,498	5,810,720	412,432	71,934	2.2%
100 - 999	19,457,613	3,207,843	17,359,136	3,776,824	568,981	17.1%
1000 - 9999	7,852,460	3,341,522	7,356,683	3,986,819	645,297	19.4%
>9999 except Company X	1,710,627	920,751	1,713,636	1,184,312	263,561	7.9%
Company X	7,093,426	3,527,730	7,006,876	5,297,355	1,769,625	53.3%
Totals	43,602,586	11,367,441	40,395,937	14,686,512	3,319,071	100%

The Delay in Ability to Electronic File Schedule D Impacted ELF Penetration

Paid Preparer Returns

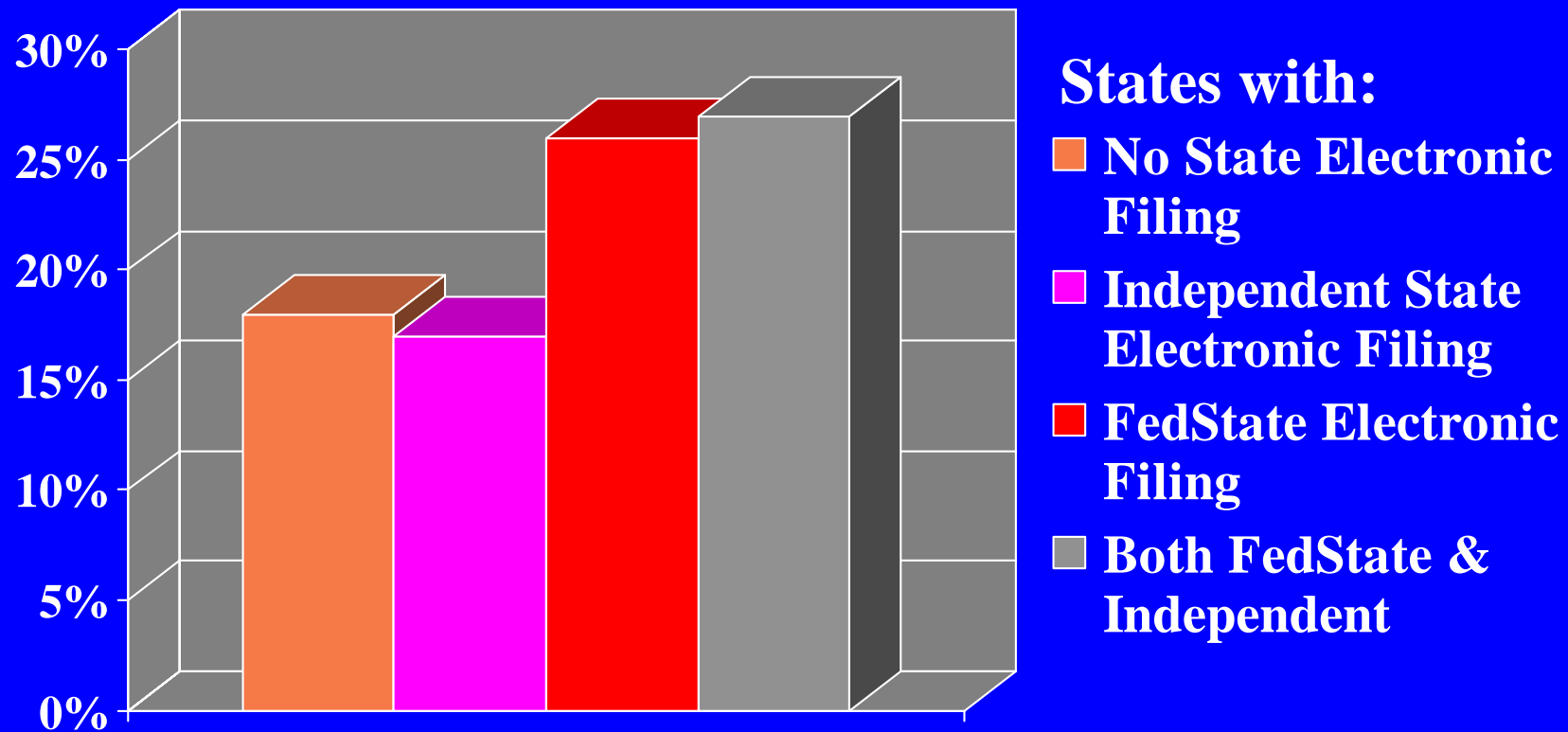


ELF Penetration Research Questions



- ◆ Is there a difference in ELF penetration for those states that offer electronic filing and those that do not?
- ◆ Is there a difference in ELF penetration for states with independent electronic filing versus those with FedState filing?

States with FedState Electronic Filing Have Higher ELF Penetration



Summary of Recommendations

- ◆ Revisit the eligibility criteria for use of TeleFile to increase the potential user pool
 - Continue the Change of Address program
- ◆ Increase the *e-file* product line and marketing efforts for the 50% of all taxpayers that prepare their own returns
- ◆ Encourage or mandate that paid preparers electronically file all computer prepared returns
- ◆ Continue to encourage 'free' electronic filing by return preparers and software developers

ETA Marketing Research

What is Next?

- ◆ This presentation will be provided to the ETA Office for distribution to internal and external customers.
- ◆ DCC has completed refreshing the PY98 file to include all returns; the data was distributed to the DORAs on CD-ROM.
- ◆ Data for the PY99 interim ETA Marketing Database is being extracted as of June 30, 1999.
- ◆ The PY99 interim ETA Marketing Database should be completed by September.
- ◆ DCC is building a multi-year relational ETA Marketing Database.

Are There Any Questions?

